Common Market Reports
EUROMARKET NEWS

Issue No. 601 *Report No. 401, July 23, 1980*

IN THIS ISSUE

Community: Draft Budget for '81 Shows 25% Increase

Only one day after the European Parliament gave final and reluctant approval to this year's Community budget, it was presented on July 10 with the preliminary draft of the 1981 budget. Christopher Tugendhat, commissioner for budget policy, explained that, at a projected cost of 21.73 billion units of account, the budget would grow by 25.5% over that of 1980. In addition to the receipts from customs duties and other levies, the budget next year would require 0.95% of value-added tax revenues transferred by the Member States. This would be barely below the 1% ceiling up to which the EC budget may draw on national VAT revenues; in the current budget this percentage is only 0.72. Commentators pointed out that this tight budgeting, which leaves reserves of only 550 million UA, could easily prove inadequate in the event of renewed financial strains on the Community.

Tugendhat did not play down this potential threat, serving notice that for any supplemental budget - such as would be required for still-higher farm subsidies - the Community would be forced to seek cutbacks in other budget areas and could not look for new revenue sources. (Brussels could certainly not hope to tap additional VAT funds: the Member State governments have made it very clear that they are not prepared to go beyond the current 1% limit.)

This issue is in two parts. This is Part I.

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Draft Budget *(contd.)*

The commissioner said that despite the proposed budget's overall expansion of some 25%, the EEC's farm expenditure growth next year would be held to less than 13%, which would be only half the average increase of the past years. Tugendhat was hopeful that some of the measures recently initiated to curb farm spending (e.g., the higher levy on surplus milk production) would enable the Community to operate within its means. According to the commissioner's projections, the common agricultural policy would account for 59.5% in next year's budget, compared with 66.3% this year and 67.3% in 1979.

The large increase in the draft budget reflects provision for the payment of a substantial refund (£770 million, or 7% of the total budget) to Britain as a result of the recent agreement to reduce the U.K.'s net budget contributions. Other sizeable funds must be set aside in connection with Greece's accession to the Communities next year. Brussels is proposing a 10% rise, to 1 billion UA, of Social Fund spending and a 37% increase, to 1.6 billion UA, of the Regional Development Fund.

The draft budget will now be up for discussion and modification by the European Parliament and the Council of Ministers. Its adoption is foreseen for the end of the year, barring complications such as those experienced this year. Approval of the 1980 budget had been delayed for about half a year as Parliament strenuously objected to Community overspending, particularly in the farm sector, and demanded reforms. The assembly's consent on July 9 could not detract from the fact that the final budget was not much different from the previously rejected version. It totals 17.3 billion UA, an increase of 12.5% over 1979

EEC-Turkey Pact to Be Reactivated

The 1964 association agreement between the EEC and Turkey will be reactivated as of 1981. This is the result of negotiations recently concluded among Member State, Community and Turkish government officials. Political and economic difficulties at home and deep concern by Member State governments over the economic and social implications of Turkey's intentions to join the EEC have prompted Ankara to postpone application for full membership, which at one time was to have been filed this month. It remains to be seen whether trade concessions, more rights for Turkish nationals residing in the Common Market area, and financial aid will be sufficient to cause Turkey to postpone membership plans for several years, as some Member State governments hope *(Common Market Reports, Par. 5346)*.

The objective of the 1964 association agreement was to pave the way for Turkey's full membership at a later date. This aim was reaffirmed in an additional protocol signed in 1970, which stated that a customs union, freedom of movement of Turks within the EC, and alignment of Turkish farm

Turkey
(contd.)

policy were to be achieved by 1986. Subsequently, however, enthusiasm waned, mainly because of Turkey's political and economic difficulties and its failure to meet commitments on tariff reductions and other obligations. Community officials also admit that Turkish interests were ignored in agreements between the EEC and other Mediterranean countries and in the accession talks with Greece. It was only after the Soviet invasion of Afghanistan and the upset military balance on NATO's southern flank that the political mood in the Member State capitals and at Community headquarters in Brussels shifted in favor of Turkey.

There are hardly any problems in trade of commercial products: Turkish goods benefit from duty-free access to the EEC, while the remaining Turkish barriers to Community products are scheduled to fall by the end of 1985. Thus, emphasis in the new agreement is placed on removing the EEC barriers to Turkish farm products in the coming years. The agreement provides for tariff cuts of 30% by 1981, 60% by 1983, 80% by 1985, and duty-free access by 1987. However, the EEC retains the right to impose quotas on certain commodities such as apricots, tomatoes, and wine.

An important part of the new agreement concerns social security and free movement within the Community. Social security payments will be raised because prior employment in Turkey will be taken into account when computing benefits for retired Turkish workers. However, the German government has refused to reaffirm an earlier commitment guaranteeing free access for Turks to the EEC by 1986. As a host to 520,000 Turkish workers and 700,000 dependents (an additional one million Turks are waiting in Turkey for work permits), Germany objects to unrestricted free movement and has already decided to introduce visa requirements for Turkish travelers. As a result, the new agreement contains merely a commitment to decide by December 1983 whether and how freedom of movement should be realized.

A new financial protocol, the fourth since 1964, provides for 600 million units of account of Community aid over the 1981-87 period. This is far less than what Ankara had hoped for, but growing economic problems in most Member States forced a limitation. Roughly half of the money will be loaned to Turkey by the European Investment Bank. The other half will be in the form of loans from the EC budget at very favorable terms (40 years, including ten years free of interest, and the remaining years at 1% per annum).

In Brief...

The European Court of Justice has rejected an appeal by Britain's Distillers Company Ltd. for an annulment of a European Commission ban on dual pricing of Scotch whiskey. Between 1975 and '77, DCL had charged lower prices for certain brands (Johnnie Walker Red Label and Dimple Haig) in the U.K. than in other EEC States, claiming that this was

In Brief *(contd.)*

necessary in order to maintain continuity of production and distribution. In reaction to the Commission's ban, Distillers withdrew both brands from the U.K. markets in December 1977 and marketed them for export only. The Court ruled that the company had failed to notify Brussels of the dual pricing system's introduction in 1975 and thereby forfeited any right to an exemption under provisions of Treaty Article 85. In a separate case, the Court also ordered the French government to rescind a ban on the advertising of Scotch whiskey, saying that the French anti-alcohol advertising code discriminates against whiskey and Dutch gin and thus is in violation of Treaty Article 30, which prohibits quantitative restrictions on imports + + + In yet another ruling this month, the Court held that the U.K. had acted illegally when it imposed unilateral fish conservation measures in 1977 and '78 without notifying the European Commission.

Germany: Bonn Cuts Loss Deductions for Partnerships

Both houses of the German parliament have unanimously approved legislation that will drastically curb the possibilities of tens of thousands of taxpayers to reduce taxable income by claiming losses they incur as partners of limited partnerships: an amendment to the Income Tax Law will allow taxpayers-partners to claim a deduction only up to an amount equal to their share in the partnership. Partnerships investing in new ships built in domestic yards will be subject to the new rules only after Dec. 31, 1989. Also, in contrast to the government's original proposal providing an important exception for individuals who are partners in limited partnerships operating in West Berlin, the passed amendment merely delays the law's application there until Dec. 31, 1984. This transitional exception, moreover, applies only to a particular type of investment, namely, partnerships financing the construction of hotels and restaurants in West Berlin.

Government officials expect some DM 500 million in additional revenue in each of the 1980 and '81 fiscal years. Thereafter, the extra revenue should shrink as limited partnerships will be forced to cut back their activities as a result of individuals investing less because of the loss of tax incentives.

Members of the liberal professions, especially doctors and dentists, have been the primary beneficiaries of the write-off practice because they could reduce their tax bill as partners in a money-losing partnership. Most of the partnerships that have stressed the attractiveness of such write-offs engage in prospecting for oil and natural gas, motion picture production, and real estate investments. However, it seems to the government that the emphasis is on producing losses for the partners rather than earned gains. (The partnership apportions the overall loss

Deduction (contd.)

among all partners based on their equity interest.) Although Bonn tried to curb the abuses with administrative measures, enforcement became difficult in the long run because many taxpayers challenged the denial of claimed deductions in court on grounds that a privilege created by statute could not be taken away by administrative decrees.

Italy: Rescue Plan for Synthetic Fiber Groups

Some 8,500 jobs will be eliminated in Italy's synthetic fiber sector as part of a financial rescue operation now approved by the government's interministerial industrial policy committee. The rescue plan *(piano della chimica)* essentially is to ensure that the deficit-ridden sector can eventually continue in a viable form. Rome intends to split the industry into two distinct parts: one will be in the public realm under the initial leadership of the state-owned ENI concern, while the other is to preserve its private status under the aegis of Montedison. The two nearly bankrupt groups SIR-Rumianca and Liquichimica will come under the jurisdiction of the public sector; Montefibre and Snia Viscosa will join the private sector.

The phase-out of the 8,500 jobs is to be implemented over a period of four years and will involve 5,000 workers in northern Italy and 3,500 in the Mezzogiorno, the development regions. To pacify the unions, which have vehemently protested the decision, the government said that some 3,000 jobs would be made available in connection with new industries and state projects in the south. Rome anticipates fewer problems in the reemployment of the 5,000 workers who will lose their jobs in the north.

The program foresees heavy capital infusions to refloat both Montefibre and Snia Viscosa. Montefibre's losses, which have accumulated to 130.5 billion lire, will be absorbed by Montedison, which will then inject 100 billion in fresh funds; another 100 billion is to be raised by a banking consortium led by IMI. In the case of Snia Viscosa, the interministerial committee decided that any financial aid will have to be supplemented by a capital increase of at least 100 billion lire. The operations of SIR and Liquichimica will be continued under the fiduciary management of ENI, which after one year would have the option of taking over the most viable plants. The remaining operations would then come under GEPI, the state holding specializing in the turning around of ailing companies.

Britain: Changes Urged for Lloyd's; OECD Survey

A U.K. working party has made far-reaching proposals for changes in the operation of the world's leading insurance market. In a report titled "Self-Regulation at Lloyd's," the committee notes that Lloyd's has generally and traditionally operated without any formalized disciplinary procedures. However, "since the continued success of Lloyd's

Lloyd's *(contd.)*

as an international market for insurance is...in the national interest, it is of...importance that Lloyd's should have an efficient system of self-regulation." The report concludes that the powers now available are no longer sufficient to ensure this. Accordingly, it advocates legislation to establish a new 25-member council to make general rules and by-laws for settling disputes and tightening discipline. This council would comprise 16 working members and six nonworking members to be elected together with three independent outsiders, who would be nominated by the council.

The working party wants new disciplinary and faster-acting procedures, with a wide and effective range of penalties, including fines, suspension, and expulsion. It recommends the gradual termination, over a five-year period, of the shareholding links between Lloyd's insurance brokers and the underwriting managing agencies, which look after the affairs of syndicates. This would be to avoid conflicts of interest. "Lloyd's is a market," the report notes, "where underwriters are in competition with each other and where (if there is to be genuine competition) brokers should place their business with those underwriters who offer the best terms. It is inconsistent with this ideal if brokers favour their own controlled syndicates."

The report recommends that outside and foreign interests be allowed to acquire an unlimited shareholding in a Lloyd's broker. So far there has been an upper limit of 20%, occasionally 25%, on such holdings.

In other news, a somewhat bleak view is adopted by the latest OECD Survey of the U.K.'s immediate economic prospects. The report predicts a marked decline of exports due to the continued strength of sterling, making British goods less competitive abroad but stimulating imports. Total output, in terms of gross national product, is likely to fall by about 2.25% in 1980 and by a further 1% in the first half of '81, despite North Sea oil revenue. However, it is also predicted that the trade deficit this year will drop from some £3 billion to £2 billion and that the current-account deficit will remain reasonably constant at just over £1 billion. The rate of inflation is expected to come down from currently 19% to just below 15% by the first half of 1981, while unemployment is to rise from 6% to more than 8% during the same period.

France: Discussions on Worktime Cuts Collapse Again

Proposals for a phased reduction in the number of annual workhours have been rejected by France's major trade unions and negotiations on this issue with the Patronat, the national employers' federation, have deadlocked once again. Proposed was an overall reduction in workhours from the present annual quota of 1,920 to 1,816 hours, according to

Worktime (*contd.*)

the formula earlier worked out by a government-appointed commission headed by Air France chief Pierre Giraudet. Negotiations collapsed this month when the employers continued in their refusal of a general reduction in the number of hours in the workweek; only workers in dirty or unpleasant jobs were offered a cut from 40 to 39 hours at full pay. The Patronat insisted that a reduction in the annual quota of workhours should generally be implemented through an additional fifth week of paid leave.

In explaining their opposition, the unions have marshaled a series of arguments, emphasizing in particular that only a substantial cut in the workweek would have any significant effect in alleviating unemployment. They point out that (1) a reduction of only one hour per week for a small number of workers would merely be compensated by more overtime, (2) the transition period of three years (five years for small businesses) demanded by the Patronat would be inequitable when set against the immediate concessions demanded of the unions in return, and (3) many workers already have negotiated a fifth week of paid annual leave as part of their collective contracts.

Most observers believe the latest pause in the discussions will not last very long. The Socialist CFDT and the moderate Force Ouvrière in particular have made worktime reductions a major plank in their policy and are likely to want a renewed start of the talks in the fall. The Communist-led CGT as well as the Christian CFTC and the CGC union of *cadre* employees have always been less enthusiastic about the discussions with the Patronat.

Both sides have been meeting on the issue for two years now, ever since the Patronat initiated negotiations in 1978 as a way of reopening contacts with the unions. Last January the talks reached a stalemate and were only set in motion again by a government initiative, which resulted in the Giraudet Commission's proposals in May.

Norway: Oil Fields Shut Down as Strike Spreads

The first days of July saw Norwegian North Sea oil and gas production shut down by the oil fields' most serious labor conflict ever. Two thousand production platform operatives stopped work in the Ekofisk, Statfjord and Frigg fields, and the strike began to spread to British sector platforms operated by companies based in Norway. A few days later, another 1,500 workers on drilling rigs in newly developed fields went on strike as well, halting exploration begun this summer north of the 62nd parallel.

The strike is estimated to cost the companies involved (including Mobil, Phillips Petroleum, and Elf Aquitaine) as well as the Norwegian state NKr 130 million in lost revenue every day. Layoffs among the oil fields' 12,000 workers have already begun, and gas deliveries to

Oil Strike *(contd.)*

West Germany and Britain may soon be affected. Since Norwegian industry is known to have approximately four weeks of oil reserves, it is believed that the strike may go on for at least that long. (Norwegian oil and gas production rose to 22.3 million metric tons oil equivalent in the first five months of this year, from 15.5 million tons in the same period last year.)

The production platform workers, organized in a recently recognized trade union, the OFS, are demanding a 33% increase in pay; so far the companies have offered 15.3%. However, the major cause of the dispute appears to stem from additional demands, including (1) an easing of the rigorous shift schedules, to give workers 24 days instead of the present 12 days shore leave after every 12 days continuous platform work, (2) a reduction in the compulsory retirement age from 65 to 60 and the introduction of voluntary retirement for those over 55 years, and (3) more consultation on safety questions. (The latter issue has been accorded some priority, not least because of the Alexander Kielland hotel platform disaster earlier this year, which claimed 123 lives.) However, the companies say that the additional demands would push the cost of the total settlement up to 100% of present wage costs.

The lower-paid exploration platform workers, who are members of the Seamen's Union, went on strike only after negotiations with the employers had broken down. They are demanding a 60% pay increase as well as improved conditions, but the companies have offered only 10.3% in extra pay. Unions representing 430 officers of the merchant marine working in the oil fields were also involved in the negotiations.

Although the Norwegian Social Democratic government is faced with the loss of a substantial amount of oil tax revenue as a result of the strike, it has so far refused to declare a cooling-off period, which would make the strike temporarily illegal and allow time for arbitration. Prime Minister Odvar Nordli does not think that national interests have been threatened. The oil companies, however, claim that they have no hope of a compromise with the unions unless the government intervenes.

EURO COMPANY SCENE

Security Pacific

California's second-largest bank, Security Pacific, will go forward with a major engagement in the U.K. home mortgage market, for which it has allocated an initial £175 million. The bank, which is a leading mortgage lender in the U.S., said its decision follows a successful pilot venture in Britain.

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IN THIS ISSUE

Community: Microelectronic Sector Needs Joint Support

In the sector of integrated circuits, the West European microelectronics industry will require financial aid of approximately 400 million units of account within the next four years if it is to catch up with its U.S. and Japanese competitors. This estimate is contained in an action plan for the industry presented by the European Commission on July 17; the survey had been requested last year by the Council of Ministers.

According to the report, submitted by the Commissioner for industrial policy, Etienne Davignon, Europe is currently being supplied with 25% of the world production of integrated circuits, while manufacturing only 6%. The Commission would like to see that share doubled by 1985. At present the EEC is forced to import about 65% of the integrated circuits needed by its industries, which burdens the Community's trade balance to the tune of 260 million UA annually. Even more pronounced is the Common Market's dependence on imports of the most advanced electronic circuits: the lack or inadequacy of European production and the European industries' need for that type of technology often necessitates the suspension of protective tariffs normally imposed on such third-country imports.

Europe's relatively weak standing is clearly reflected in the rankings of the world's leading microelectronics manufacturers, in which the U.S. and Japanese producers oc-

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Electronics *(contd.)*

cupy the first nine places. Holland's Philips takes the 10th position and Germany's Siemens, the 16th. Overall, the value of microelectronics production in the United States amounts to $2.556 billion; in Japan, to $1.06 billion; and in West Europe, to only $432 million. National aid programs for microelectronics totaling 360 million UA have been applied in France, Germany, Italy, and the U.K. since 1974. However, both Washington and Tokyo are similarly supporting the development of their respective domestic industries.

Commissioner Davignon feels that only a collective effort can meet the future challenge of international competition in this sector. The action plan therefore favors close coordination among the Member States in the areas of research, development, and production, to be financially supported by the individual governments. The success of such a program would depend on the extent to which the participants (governments, research institutions, and industry) are prepared to integrate their own interests into a Community strategy. Industry observers are not too hopeful. As an example of a typical problem sector they cite telecommunications, where various state monopolies are now effectively blocking the development of compatible systems and thus a "common market" in this field.

Enforcement of Ship Safety Rules Sought

Stepping up its efforts to raise safety standards of ships in order to prevent accidents, the Commission has proposed a draft directive that would require the Member States to make full use of the powers granted under the IMCO and ILO conventions on shipping safety and pollution prevention. The States would have to make certain that ships entering and leaving their ports meet the standards with regard to construction, safety and navigational equipment, loading and pollution control. Not all States are now using these powers to the full extent.

Under the proposal, the captain of any ship entering an EEC port would have to present a statement to the port authorities about the ship's and the crew's certificates and other documents. He would have to report any deficiencies or accidents affecting safety. If the authorities have reason to believe that the certificate is invalid, the ship does not meet the safety rules, or the crew does not fulfill the professional standards, then the ship would have to be inspected and could be detained until the deficiencies are remedied.

The Commission's proposal fits into a series of Community measures adopted or planned in the field of ship safety and pollution control since the disastrous accident involving the Amoco Cadiz oil tanker in March 1978, when over 200,000 tons of crude oil spilled into the sea and onto the Brittany coast, causing vast damage.

Ship Safety (Contd.)

A specific proposal designed to prevent and combat marine pollution by tankers will be submitted to the Council later this year. To stimulate discussions in the Member State capitals and prepare the ground for legislation, the Commission recently presented a plan to the Council to combat oil pollution of the sea. In the paper the Commission describes what it plans to propose in the coming months. The steps include the establishment of an advisory committee of national experts to assist the EC executive in all actions it would take in this field. The Commission will also propose the establishment of a Community information system on the prevention and control of oil pollution of the sea. It will furthermore propose periodic tests to verify whether the national pollution control plans work satisfactorily and whether they would produce the desired results in the case of accidents.

In Brief...

As had been expected by most observers, the latest Geneva round of talks between experts of the EEC and Comecon on July 17-18 did not produce any tangible progress and ended without a formal statement being issued. The Comecon is looking for a cooperation agreement that would include such trade features as a most-favored-nation clause and quota agreements. Brussels does not even acknowledge any treaty-making powers of the Comecon secretariat and would sign agreements only with individual Comecon members + + + Leading politicians, including government officials, in Australia have threatened a "boycott" of imports from the EEC up to 1 billion Australian dollars in protest against the Community's farm policies, in particular with respect to the new market organization for mutton and lamb. Although their lamb and mutton exports to Europe are relatively modest, the Australians fear that the impact of the market organization will hurt their other foreign markets, as has previously happened in the case of subsidized sugar, flour, and milk products + + + In related developments, New Zealand and the Community have in principle come to terms on an agreement according to which New Zealand will exercise restraint in exporting lamb and mutton to the EEC in return for substantial tariff concessions. The agreement was still to be sanctioned by the farm ministers. Unofficial reports said that Finn Olav Gundelach, the EEC agricultural Commissioner, had agreed to cut the 20% Community tariff on sheep meat imports in half. This would improve the income of New Zealand sheep farmers, who export 60% of their production to the Common Market.

Germany: Industrial Concentration Still Rising

Industrial concentration in Germany continued to rise measurably in the 1976-77 period and reached "a high level," according to the latest two-year report of the Monopolies Commission. The three largest companies in each of the various industrial sectors reported a total average market

Concentration *(contd.)*

share of 26.9% in 1977, up from 25.3% in '75, the survey notes. The share of the six largest companies amounted, average, to 36.6% (34.5), and that of the 10 leading companies in each sector went up from 42.3% to 43.7% within the reporting period. On the average, the 10 leading enterprises of the respective industrial sectors were 56 times larger than all of their competitors combined. In electrical engineering, the ratio was even higher: 215:1.

The Monopolies Commission points out that this concentration trend has been going on since 1954 and that nearly all industrial sectors are affected. It again makes reference to the numerous and close interrelationships between Germany's large enterprises in the form of cross holdings and joint ventures. In this respect, the report notes, it is the huge, state-controlled energy holding, Veba, that leads the field with no less than 151 participations, which tie the group to 46 other leading enterprises. The "top 100," moreover, are often also interrelated in their controlling bodies through representatives of financial institutions (banks, insurance companies) and the labor unions.

Between 1976 and '78, the report continues, the top 100 companies were involved in 496 mergers. Because they so often pertained to the takeover of small and medium-sized businesses, 46.8% of these mergers were not subject to anti-merger controls since they did not result in a "market-dominating force."

Earlier this year an amendment to the Law Against Restraints on Competition (GWB) took effect, which tightens controls over mergers and market-dominating companies *(Doing Business in Europe, Par. 40,020)*. Under these new rules, the Federal Cartel Office is authorized to intervene whenever a business to be acquired has an annual turnover exceeding DM 4 million (previously DM 50 million). The amendment also permits the assumption of market domination by a large company with annual sales of at least DM 2 billion. Nevertheless, the Monopolies Commission believes that the cartel law still has too many gaps and that it should be made possible to break up extreme concentrations retroactively.

With regard to the latter point, the Commission concedes that any such "decartelization" *(Entflechtung)* could offer solutions only in markets of "extreme competitive importance." Decartelization plans would be devised by the Cartel Office with the approval of the Federal Economics Ministry and the cooperation of the companies involved. In a first reaction to this proposal, the German industrial association said that such a move would be an "adventure" and would constitute "a government attack on the central nerve of German industry..."

Britain: Government Explains Stand on Mergers

U.K. Trade Secretary John Nott has clarified the government's policy on corporate mergers, and his observations are seen as marking an important step in the shaping of official attitudes in this area. Nott emphasized the necessity for a "distinctly more skeptical approach" to the relative merit of mergers. The government would take a long, hard look at any suggestion that a merger would automatically lead to rationalization, economies of scale, or "other miraculous transformations." A critical consideration would be the effect on competition of any proposed merger.

In 1978 a Green Paper was published by the Labour government - based on the findings of a committee under Hans Liesner - which recommended a more neutral attitude toward mergers rather than the prevalent view that mergers were, on balance, beneficial. The Paper also proposed the introduction of legislation that would incorporate a stricter code for mergers, with a formal two-stage approach. However, Nott said he saw no real advantage in more formal procedures. While the present law was not perfect, it was generally understood and offered "sufficient flexibility to accommodate any shifts of emphasis that may be needed."

With regard to the competition aspect, the Trade Secretary said that "the acquisition of a successful company by a large and unrelated company which is merely shopping around when flush with funds...may in reality involve a diminution of competition and no evident efficiency gain..." Here, "...a careful assessment by the Monopolies and Mergers Commission *(Doing Business in Europe, Par. 24,007A)*, difficult though that is, could be necessary."

Nott emphasized the need to look very carefully at any mergers that would eliminate direct competitors in a market or which might distort competition by linking supplier with customer. He conceded that there could be no hard and fast rule for assessing the competitive effects of a merger, which, in some circumstances, could be "positively beneficial" by enabling smaller suppliers to compete more effectively with larger ones. However, Nott warned that a merger could be detrimental, even if it involved no direct reduction in competition, since its effect might be to "eliminate a promising source of future competition, or to shelter some activities from market disciplines."

The Trade Secretary stressed that the new emphasis on competition in considering a proposed merger should not lead to a significant increase in investigations but, instead, should ensure that the reasons for an individual reference are more clearly understood. However, it might also lead the Mergers Commission to "shift the balance slightly" in the number of mergers deemed to operate, or likely to operate, against the public interest. Nott said he anticipates a marginal change toward improved competition in looking at future merger policy in Britain.

Netherlands: More Emphasis on A-Power; Shipyard Aid

In two decisions affecting the future of Dutch industry, the center-right government has urged an expansion of nuclear power utilization and has massively cut aid to the domestic shipbuilding sector.

A 600-page study on nuclear power compiled by a team of five cabinet ministers recommends an increase from the present 4% to 40% in the share of electricity generated by A-power by the year 2000. Coal's share would rise from 5% to 40%, and the share of oil and natural gas would fall from over 90% to 20%. To help achieve this, the study recommends the construction of three new 1,000 MW nuclear reactors, to add to Holland's two existing plants, which have a combined capacity of only 520 MW. The proposal specifies that two of the new plants be built side by side on a site bordering the Ijsselmeer, while the third would be built near an existing 450 MW plant at Barosele, Zeeland province. Both sites are sparsely populated and have access to plentiful supplies of cooling water.

The report cites the need to diversify fuel resources as one of the prime reasons for increasing the use of nuclear power. It urges an end to the six-year delay in decision making on nuclear questions since the Den Uyl government in 1974 committed Holland to "going nuclear." The report is intended to become the basis of a two-year public debate, after which the government hopes that Parliament will support the proposal to build the new reactors. Antinuclear groups, however, have already begun to mobilize local opposition at the proposed sites. Resistance to A-power has also led to a parliamentary veto on test drilling at a proposed nuclear waste dump in the salt deposits of the eastern province of Drenthe; a parliamentary majority believes the drilling should wait until after the coming two years of the "great debate."

Government aid to the shipbuilders is to be cut to 100 million guilders this year, after totaling 2.2 billion guilders in the last five years. In a letter to the Shipbuilding Commission, which until now has been responsible for administering the aid, Economics Minister Gijs Van Aardenne revealed that in the future aid generally will be allocated to help entire industry sectors, including profitable companies, rather than merely to cut the losses of weaker firms. This year three of the five classes of shipyards will be eligible to receive assistance - medium-sized yards, naval dockyards, and the 20-odd small yards in the northeast. The companies may claim aid equivalent to 10% of their eligible order value in the last three years. The government specifies that the recipients employ Dutch residents and not seek to bring immigrant workers into Holland. The measure is to be made retroactive to January 1980, and next year The Hague hopes to work out a new program of financial assistance to the shipbuilding industry.

Belgium: State Rescue for Textile Industry

Belgium's 1,500 remaining textile businesses, two-thirds of which employ less than 50 workers each, are to be rescued by state intervention. Several recent studies have shown that, without financial support, employment in the industry will fall from 120,000 to 85,000. The government aims to limit the loss of jobs to 15,500 by setting aside some BF 3 billion in aid during the next five years. The money is to be used to reorganize the industry through equity participations, finance modernization and rationalization, and provide interest rate subsidies and financing for export market studies.

West Germany's textile industry has immediately issued a stinging protest against the Belgian action. The German textile manufacturers' association warned that EEC competition policy was about to turn into an "ugly caricature" of itself and called on the German government and the European Commission to act quickly and uncompromisingly to stop the measures.

Norway: Compulsory Arbitration for N. Sea Workers

Two thousand workers on Norway's North Sea oil production platforms have gone back to work after a compulsory arbitration procedure set in motion by a cabinet decree forced them to end their two-week strike on July 17. The workers, organized in the OFS trade union, were demanding a 33% pay increase as well as more time off and a lower retirement age - a package that the oil companies said would double their wage bill. The dispute has now been referred to the National Arbitration Board, whose decision will be binding on both parties. The oil companies lost NKr 2 billion in oil and gas production during the walkout, and the government is short NKr 1.5 billion in taxes and royalties. Supplies to industrial and household consumers were never seriously threatened, however, and the companies expected to re-establish the normal flow of oil and gas within two weeks.

Oslo appears to have intervened in the conflict because it feared that a high settlement in the oil fields could threaten its anti-inflation policies on the mainland. The collective settlements last spring with the LO trade union federation set what was considered a moderate level of an average 8% in wage increases. The OFS is not a member of the LO, having been established early this year as a loose cartel of the house unions that represent the workers in negotiations with the companies. The LO has strongly attacked the OFS demands and threatened to raise supplemental wage demands should the OFS-organized workers receive more than the average pay increases negotiated last spring.

The OFS, in turn, is bitter about the government's intervention because the latter does not apply to the 1,500

Arbitration
(contd.)

members of the Seamen's Union working on mobile drilling rigs who went on strike shortly after the OFS walkout began. The Seamen's Union is a member of the LO, and its workers, even though generally less well paid than those the production platforms, are subject to much lower rates of taxation.

In other oil news, a consortium of companies has announced that its third test boring in a North Sea area off Bergen has confirmed the presence of the largest natural gas field in Europe, with estimated reserves of 2,000 billion cubic meters. Production, however, cannot begin until the end of the 1980s. The consortium consists of the state-owned Statoil (50%), Norsk Shell (30%), and four other small Norwegian companies (20%).

Greece:
No More Probes for Source of Property Funds

Finance Minister Miltiades Evert has announced that the Greek tax authorities will no longer demand proof of the source of funds used for the purchase or construction of real property, especially private housing. Also, the transfer tax on first-time purchases of real property will be either heavily reduced or not imposed at all; legislation to this effect is soon to be introduced in Parliament. The government apparently is determined to revive home construction, which has been in a long period of stagnation, as one of the supporting forces of the domestic economy. Part of this policy is the Finance Ministry decision that housing rents no longer be used as an indicator in the assessment of personal incomes. (The value of automobiles, on the other hand, will continue to be used as an indicator.)

The regulation requiring real property buyers and builders to disclose the source of their funds was introduced about two years ago and immediately caused a severe slump in private building activity. It also was blamed for a considerable rise in illegal capital transfers abroad. At the time the regulation was introduced, the goverment believed it should crack down hard on this type of tax evasion. Meanwhile, however, the new administration in Athens has adopted the opinion that the impact of the "whereabouts" rule, as it is popularly known, has been much more damaging for the economy than the loss of tax revenues.

Common Market Reports

EUROMARKET NEWS

Issue No. 603 *Report No. 402, August 7, 1980*

IN THIS ISSUE

Community: Trade Policy Aims Toward Japan

The Council of Ministers' reaction to the European Commission's ideas on a Community trade policy toward Japan has been rather negative, but observers believe there still is a chance for implementation of the concept. In a recent paper addressed to the Council, the Commission has outlined a new long-range strategy to reduce Japan's snowballing trade surplus with the EEC ($7 billion in 1979). This strategy foresees voluntary export restraints over a limited period of time by Japanese manufacturers of sensitive products such as electronic equipment and cars. In return, the Member States would drop most of the quantitative restrictions imposed on a total of 58 Japanese products, though to a different degree. (Italy imposes 32 quotas on Japanese products, the most of any State - among others on cars, leather goods, and electronic products. France is second with quotas on 28 products. Germany imposes only three quotas.)

For the time being, the Commission is not submitting a proposal but is merely seeking the backing of Member State governments for its ideas on the changes that should be made. The Community does not have a trade agreement with Japan as it has with dozens of other third countries; instead, there are bilateral agreements between individual

This issue is in two parts. This is Part I.

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Japan *(contd.)*

Member States and Japan, some of which go back to the late '50s. These agreements include safeguard clauses allowing for import restrictions on both sides. A number of informal arrangements restricting imports from Japan are negotiated annually by national governments or industries.

In the Commission's view, the present arrangement is unsatisfactory because the discrimination against Japanese products is out of proportion to the economic significance of the trade restrictions and because there is a gap in the common commercial policy. The Commission believes that an overall Community strategy aimed at removing existing restrictions on trade and cooperation with Japan would be in the EEC's interest, considering the past performance of Japanese manufacturers and the future potential of the Japanese markets.

Opposition to the Commission's ideas comes from all Member States, though for different reasons. While Italy and France want to continue the existing pattern of national restrictions and are supported on this by most other States, Germany objects in principle to the planned strategy of additional voluntary restraints negotiated on a Community basis. German Economics Minister Otto Lambsdorff would rather let the market forces determine the flow of trade, even if this means some unemployment at home. Leaders of the governing Social Democrats remain uncommitted so far, but this could change as the labor unions intensify their calls for curbs on Japanese car imports. From mid-1979 to mid-1980, the five Japanese car manufacturers sold about 125,000 cars on the German market, which accounted for almost 9% of the total number of new models sold. This was roughly 45,000 cars, or 40%, more than they sold during the corresponding previous period.

Authorization for Marketing of Drugs

The Commission has reminded manufacturers and importers of pharmaceuticals to use the Community procedure for obtaining authorization to market proprietary medicines in other Member States as provided in a 1975 Council directive *(Common Market Reports, Par. 3504)*. Although the rules took effect two years ago, the Commission has thought it necessary to tell manufacturers and importers again that they may use the services of the Committee for Proprietary Medicinal Products, attached to the Commission (Official Journal No. C162; July 2, 1980). The committee does not itself decide whether a product is admitted for sale on a particular market, but its opinion carries considerable weight and cannot be ignored by a national government without genuine grounds. Since the rules took effect, the committee has been called upon a number of times to render an opinion.

Several conditions must be fulfilled in order to use the committee procedure. The pharmaceutical for which marketing authorization is sought must have already been given

Drugs
(contd.)

such authorization in one Member State. The applicant must seek marketing authorizations for at least five other States. Vaccines, toxins, serums, radioactive isotopes, and homeopathic proprietary medicines are excluded.

For example, a French manufacturing company that has obtained marketing authorization at home and wants to sell its product in Germany, the Benelux countries, the U.K., and Denmark asks its government to forward a request for authorizations via the committee. It sends along copies of the information and documents that were provided when the French license was applied for; the French marketing authorization must also be submitted *(Common Market Reports, Par. 3504J)*. The information must include a description of the qualitative and quantitative data of the drug's components, a summary of the method of preparation, therapeutic indications, contraindications, side effects, and a description of the manufacturer's control methods *(Common Market Reports, Par. 3502D)*. The information and documents usually are presented in the language of the Member States where authorization is sought, but committee rules provide for exceptions.

The importance of the committee becomes evident in cases where one or several of the States do not want to license the drug. If this happens, the State(s) must send a reasoned opinion to the committee within 120 days. The latter then gives its opinion within the following 60 days and informs the State concerned. The State then has 30 days to make a final decision.

In Brief...

The Council has given the Commission a mandate to open new talks with Washington over ending the "unfair" price advantage enjoyed by U.S. petrochemicals manufacturers because of American price controls on oil and gas. The controls enable American fiber and chemicals manufacturers to buy base products 10-20% cheaper than their European counterparts. The Commission has also been instructed to study the possible use of special pricing devices similar to the "trigger price mechanism" used by the United States to raise prices of imported steel + + + The Commission has proposed changes in the Community's Generalized System of Preferences that is scheduled to go into effect at the beginning of 1981, when the current system expires. (The GSP grants trade concessions without demanding reciprocity for EEC products.) The proposed changes would acknowledge the fact that the countries of the third world are developing at different speeds and that some of them have benefited from GSP at the expense of those that are behind in their industrial development. One change would grant freer access of sensitive products from less developed countries. Another change would add China and Romania to the list of beneficiary countries with respect to all products; both are now covered by special arrangements.

Germany: Laws Passed on Chemicals, Fair Employment

Two of the many bills the German parliament adopted prior to the summer recess and the end of the current legislative session prior to the national election on October 5 are important for industry and all employers generally. They concern the testing of new chemicals and fair employment practices.

A new law taking effect on Jan. 1, 1982, requires manufacturers to test new substances for their toxic properties and their effects on man and environment. Importers of new chemicals will have to meet the same requirements. Prior to being marketed, all toxic substances will have to be suitably packed and labeled and registered with the government authorities.

Toxic substances already on the market the day after the measure is published in the official gazette can become subject to the new rules through regulations. The government has the power to designate so-called old substances in such regulations, which would require manufacturers or importers to test these substances. Most important, the measure empowers the government to ban or restrict the manufacture or marketing of dangerous chemicals *(Doing Business in Europe, Par. 40,004)*. The law, which reflects the essence of an EEC directive, is to be published this month.

It is hoped that sex discrimination in employment will decline as a result of legislation expected to take effect this month. Women should be the main beneficiaries because discrimination will be prohibited in the areas of hiring, pay, working conditions, advancement, and dismissal. The measure constitutes Germany's belated compliance with an EEC directive; the government originally thought that the Constitution's equal rights and antidiscrimination clauses would sufficiently guarantee equal pay for equal work. This was disproved when a number of women successfully sued employers, charging discrimination in pay and working conditions. It was only after the EC Commission started proceedings against Germany for failure to comply with Community rules that Bonn relented and presented the bill.

Existing job discrimination is expected to disappear gradually as more employees take advantage of their improved standing in litigation resulting from an amendment to the Civil Code. At present, it is the plaintiff who must submit all evidence in support of his claim. This situation will change in suits brought by employees charging job discrimination: the employee will merely have to present a reasonable claim, and the burden of proof will then be on the employer to show why he made a particular decision concerning the employee's pay, working conditions, or promotion. For example, the employer would have to show why a man was promoted instead of a woman *(Doing Business in Europe, Par. 40,006)*.

Denmark: Critics Query 'Social Income' Calculations

A minor social welfare reform, which is part of the government's economic austerity program, is being attacked by numerous critics in Denmark as particularly damaging to families with children and to homeowners. The gist of the reform is that, as of Jan. 1, 1981, social benefits provided by the state and the communities will no longer be calculated on the basis of taxable income but on that of "social income," which is higher. In computing the latter, insurance premiums may not be deducted from gross income, and the value of existing major assets will be translated into hypothetical income, which is then added to social income.

In revenue terms, the new system will save the state some DKr 475 million per year, at present prices. While this is equal to only 0.4% of the overall budget, the quota increases to 1% in the social welfare realm and is bound to rise further in future years. (Last year, social spending accounted for a full one-third, or DKr 66 billion, of the budget.) The reason for this is the inclusion of assets in social income: after a free allowance of DKr 341,000, any assets up to DKr 682,000 are added at a 10% rate to this assumed income; a rate of 25% applies to the next DKr 454,700, and one of 50% to the remainder.

Few Danes have accumulated enough wealth in the form of cash or securities to be affected by the computation of social incomes. However, most families live in their own homes, which at one time were purchased with a low down payment but which have appreciated sufficiently in value to exceed the level of the free allowance. Families with children in particular will be suffering because income limits for calculating family allowances have also been slashed, while nursery and kindergarten charges have been raised. A typical family, it has been estimated, will receive DKr 16,000 less in allowances and have additional costs of DKr 8,000 per year.

Ritt Bjeregaard, the social affairs minister, has rejected the protests as invalid. She says it was necessary to do away with the "double advantage" of deducting insurance premiums from taxable income and, in doing so, qualifying for higher social benefits. She also believes that accumulated wealth should be part of the whole picture.

Leading economists counter with the argument that the new system will cause the free-spending Danes to save even less than they do now. For families with children, they say, it will be more advantageous to put new mortgages on their homes, as the latter keep rising in value. Also, there will be less of an incentive to save for "a rainy day" or toward retirement. Eventually, these critics maintain, this is bound to bring on a collision between "social justice" and economic realities.

Italy: Government Holds Off on Income Levy

The proposed decree for a compulsory 0.5% levy on employment incomes announced last month by the Italian government has been dropped until an appropriate legislative bill can be presented to Parliament in September. The levy was intended to finance a "solidarity fund" of up to 4,000 billion lire to prop up financially troubled industrial enterprises, particularly in the depressed southern regions. The plan was part of the government's anti-inflation package and would have reduced consumer demand. The funds were to be paid back after four years.

Italy's three main labor unions (the CGIL, CSIL, and UIL) had originally supported the proposal on condition that they would have a share in the fund's administration. However, when the Communists organized opposition to the plan in a series of protest strikes and demonstrations, the unions were forced to abandon their earlier position and join in urging the withdrawal of the decree. When the solidarity fund proposal is finally debated in Parliament, the Communists may even have the support of some Liberals who fear that the fund will perpetuate inflation by bailing out "lame ducks."

The decision to drop the levy was helped by the rapid rise in value-added tax revenues in the first half of the financial year. The reported 72% increase to 1,580 billion lire will have a dampening effect on consumer purchasing power similar to that expected from the levy. The Bank of Italy's 6% ceiling on domestic credit expansion will also have a major impact in reducing inflation, according to government economists. However, the credit squeeze is so tight that Confindustria, the Italian industrial federation, has protested that it will impose too severe a burden on company finances and erode industry's liquidity just when consumer demand is falling. The organization fully supports the government's efforts to reduce industry's w[illegible] costs by "fiscalizing" a further portion of employers' contributions to the social insurance system.

In other news, Parliament ended a special four-day hearing by voting 535 to 370 to absolve Prime Minister Francesco Cossiga of accusations that he had infringed secrecy rules. A Communist Party motion calling for Cossiga's indictment and impeachment alleged that he had informed his cabinet colleague Carlo Donat-Cattin of the impending arrest of the latter's son for terrorist activities. A narrower majority of 507 to 416 also rejected a motion proposing further investigations into the case.

France: Eased Credit Access for Small Business

Some 1.6 million small and medium-sized French firms may benefit from easier access to credit following the government's establishment of a special finance institution geared to meet their capital needs. It will be the main

Credit
(contd.)

task of the new bank to help these businesses in obtaining medium-term and long-term credit, to arrange for simplified lending procedures, and to make the public contract markets more accessible. The creation of CEPME (Crédit d'Equipement des Petites et Moyennes Entreprises) is the result of long and complicated negotiations initiated by the government, which have now led to the merging of three institutions previously active in this financing sector.

CEPME will begin operating on Jan. 1, 1981, with an equity capital of FF 350 million and total funds of FF 1.4 billion. The French state will hold a majority share of 51%, and Banques Populaires, the French network of local mutual banks, 36%. The remaining capital will be held by three state-owned banks (BNP, Société Générale, and Crédit Lyonnais), private banks, regional development funds and home mortgage societies, and the professional organization of small and medium-sized firms (GIPME).

The new institution will absorb the activities of the Caisse National des Marches de l'Etat (CNME), which was originally set up to ease access for small firms to government contracts. The assets and activities of the Crédit Hotelier, Commercial et Industriel, which is controlled by the Banques Populaires and gives low-interest credits to small businesses, will also be fully merged into CEPME as will be those of GIPME, mentioned above.

Switzerland: Aliens Face New Curbs on Real Property

An expert commission of the Swiss Justice Ministry has prepared draft legislation seeking to tighten even further existing regulations curbing real property purchases by nonresidents. The draft, which is a revision of an existing decree due to expire in 1982, will now be sent to the political parties, cantonal governments, and other organizations for review and comment.

Among other things, the legislation would prohibit real property purchases by agents and developers organized as stock corporations in the form of holdings. Such companies are often formally owned by Swiss citizens but are really controlled by foreigners. Because of the system of bearer shares, the Swiss authorities are rarely able to determine the actual ownership situation of such holdings. In the future, these companies would have to furnish proof that they are not controlled by aliens, and a 30% rate of foreign control would be deemed "undesirable."

On the other hand, the bill foresees a lifting of the ban under which foreigners, at least in theory, may not purchase real property in designated communities, mostly the tourism centers. This ban, although often circumvented, has spawned a profusion of vacation home complexes built in the open countryside - a trend that is worrying

Real Property *(contd.)*

environmentalists. In replacement of the ban, the draft law provides for the cantonal governments to set quotas for real property purchases by aliens, in accordance with a national quota fixed by the federal government at two-year intervals.

The submission of the draft was accompanied by the news that total real property purchases by nonresidents in Switzerland last year rose by 30% to 6,000, the latter figure reflecting the number of permits issued. According to official statistics, such transactions between the years 1961-78 numbered nearly 46,000, with a total value of SF 9.73 billion. Because of steeply rising prices and toughening restrictions, real property purchases by nonresidents are more and more concentrated on apartments (condominiums).

EURO COMPANY SCENE

Allegheny Ludlum/ Wilkinson Match

Pittsburgh-based Allegheny Ludlum, the steel products and diversified industrial group, has made a firm cash offer of 187p per share for the remaining common stock of Britain's Wilkinson Match, of which it already owns 44.4%. A few weeks ago Allegheny indicated it was prepared to pay 168p. The latest offer values Wilkinson at £53.5 million on a common share basis. In addition, the U.S. company has made pertinent bids for Wilkinson preferred shares and convertible loan stock. The U.K. razor and match company reported pre-tax earnings of £14 million for the 12 months ending last March 31, down from £19 million for the comparable 1978-79 period.

Midland/ Crocker/ Trinkaus/ Citicorp

London's Midland Bank has announced plans to acquire a majority interest of 51%, eventually 57%, in California's Crocker National Corp. The agreed transaction would hav[e a] value of some $820 million and would proceed in steps. Midland intends to purchase 6.5 million Crocker shares at book value, but for no more than $50 per share, and it would obtain from a capital increase another 5.5 million shares at $90 per share. In Germany, Midland has tentatively agreed to acquire from the United States' Citicorp a 60% majority equity in Trinkaus & Burkhardt & Co., the Düsseldorf private bank. It was reported that the price for the deal could be DM 165-166 million, which corresponds to Trinkaus's net assets.

Common Market Reports

EUROMARKET NEWS

Issue No. 604 ...t 12, 1980

IN THIS ISSUE

Community: EC-Romania ...cts Signify ...ognition

Romania's foreign trade minister Cornel Burtica on July 28 signed agreements between his country and the EEC on trade in industrial products and the establishment of a joint committee. Thus, Romania became the first East Bloc country to recognize de jure the Community as a legal entity. De facto existence was long recognized through bilateral contacts as well as several agreements negotiated and signed by lower officials of both sides. Accreditation of a Romanian ambassador to the Council and the Commission would be the finishing touch to full recognition, and Commission officials expect this in the fall.

The economic significance of the five-year trade agreement on industrial products (except steel and textiles), which takes effect on Jan. 1, 1981, lies in the eased access of Romanian products to the Common Market. After the Community extended its system of generalized tariff preferences to Romania in 1974, Romanian state-owned companies quickly took advantage of the preferences and exported roughly 25% of their finished and semifinished products to the EEC. The agreement extends these preferences by removing two-thirds of the quota that the Community retains against products from all East Bloc countries. The remaining quotas will be raised by 20% as of 1981.

The new agreement is expected to stimulate trade even

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43

Romania *(contd.)*

further. Last year Romania's exports to the EEC totaled $1.95 billion, 48% more than in 1978. This steep increase reduced by half Romania's trade deficit with the EEC, which in 1978 stood at about $200 million. Romania's most important trading partner is West Germany, which in 1979 absorbed 40% of its products exported to the Common Market and accounted for 45% of the EEC's exports to Romania.

Commission officials attach great significance to the joint committee provided for in the second agreement. The main tasks of the committee will be to discuss all problems of mutual interest, monitor trade developments, give recommendations on where emphasis in trade should lie, and exchange information on economic development.

Progress in the development of relations between Romania and the Community was bound to come, according to observers, after it became evident that the Soviet Union was not prepared to accept the broader concept of EEC-Comecon relations envisaged by the Community, namely, the recognition of the EC as a legal entity with treaty-making powers.

Social Fund Resources Not Fully Exploited

The Community could do far more to financially support national programs on vocational training and redeployment of workers if the Member States themselves would be more active in these fields, according to the European Social Fund's recently published annual report for 1979. Although the Fund had approximately 760 million European units of account to spend last year, 25% more than in 1978, the States did not come close to using up the limited financial resources allocated each year in the Community budget. According to the report, the States are not only lagging in setting up new programs or expanding existing ones that qualify for Community support, but they also are not taking advantage of eased payment conditions once the Commission has approved a grant to support a particular program. As a result, about 320 million EUA that could have been spent last year went unclaimed and were carried over to the Community's 1980 budget.

The total appropriations of the Social Fund in 1979 were 767 million EUA, 25% more than in 1978. It is estimated that approximately 1.36 million people benefited from the Fund's financial support last year, one-third more than in 1978. Applications for assistance came to roughly 1.3 billion EUA and thus far exceeded resources. This is why the Commission, after consultation with the Fund's committee, had to apply the rigid selection criteria that were stiffened for the 1979-1981 period because of the rising demand for Fund assistance and the Council's refusal to allocate more money, as the European Parliament had demanded.

More than half of the 300 million EUA spent in 1979 went into national measures to improve the employment situ-

Social Fund *(contd.)*

ation in the Community's less developed regions (especially in Ireland, the U.K., and Italy), to individual industry sectors, such as steel and textiles, and individual companies. For the first time the Fund spread its activities by providing recruitment premiums as an incentive to firms to hire persons under 25 years of age. It also paid subsidies to national government programs to hire young people for new jobs created in the public interest.

In Brief...

The Commission has proposed partial harmonization of national automobile liability insurance rules to eliminate discrimination involving victims of car accidents. Since the minimum coverage for personal injury and property damage differs substantially among the Member States, the Commission proposes that the minimum amount of compensation available per person be not less than 350,000 units of account or not less than 500,000 UA in each insurance case. The EC executive hopes for speedy deliberations in the Council once the European Parliament and the Economic and Social Committee have given their opinions; it counts on enactment by Sept. 1, 1981 + + + The Commission has imposed a preliminary 10.15% antidumping duty on steel pipe imported from Spain to the EEC. According to the Commission, Spanish steel manufacturers were able to raise their exports to the Common Market last year by 45%, to approximately 50,000 tons. This increase, at the expense of the EEC steelmakers, was possible only because of substantial export subsidies from the Spanish government. The Commission's regulation imposing the duty took effect on Aug. 1 and sets a precedent on how to deal with subsidies that are contrary to the new GATT code (Official Journal No. L196, July 30, 1980).

Britain: A Company's Purchase of Its Own Shares

The purchase by a company of its own shares has been illegal in the U.K. since 1887 *(Doing Business in Europe, Par. 23,717)*, but now the government has come forward with a draft document that could herald a change in this situation. Laid down in a Green Paper, "The Purchase by a Company of Its Own Shares," the proposals would encompass both public and private companies but are intended especially to benefit the latter. The government intends to incorporate the paper's recommendations in a companies bill and present it in the next parliamentary session at the end of the year. This would be part of its endeavors to change Britain's industrial structures.

Trade Secretary John Nott said that entrepreneurs who consider putting their own money into an enterprise would feel that it would be much easier to realize all or part of their investment. In addition, other prospective shareholders could expect a somewhat diminished danger of being blocked in, while existing shareholders would be able to

Shares *(contd.)*

attract new equity investment without giving up control of the company.

As regards public companies, the provisions would afford a means of returning assets to shareholders, providing an outlet for surplus cash. If a company should sell off part of its undertaking, it would be provided with an alternative method of distributing the proceeds to its shareholders. (However, Professor Jim Gower, author of the consultative document, says it is difficult to see how the power to purchase the company's own shares could be directly used to facilitate demergers, which the Conservative government wishes to promote, and thus break down the major conglomerates.)

Companies would not be allowed to trade in their own shares or purchase them in order to resell them; such shares would be cancelled forthwith. Other safeguards proposed are that the principle of repurchase must be authorized at the annual general meeting, which would also decide the maximum number of shares which could be bought back and within what broad price range. Only fully paid-up shares would be purchasable, out of profits or a fresh share issue.

The annual report would give full details and reasons for a purchase in the relevant year, and there would be a register, available to the public, of all such purchases, contracts, and options. Furthermore, no purchases would be possible if they reduced the nominal value of the issued share capital below the statutory minimum specified by the 1980 Companies Act. There would have to be safeguards to protect shareholders, creditors, and other interested parties. Companies would not be able to acquire shares out of capital, which would compromise the position of creditors, and would not be able to take advantage of confidential and privileged information that they alone possess. For the time being, investment trusts are expressly excluded from the proposals, although this is a sector that observers believe would particularly benefit, since at present trust shares are quoted at a discount of some 25% below underlying assets.

By the time the bill is drafted, the Treasury ministers will have considered the various fiscal implications. The government wants to ensure that any changes will not result in sophisticated tax avoidance by companies.

Germany: Unions' Plan in Mannesmann Reorganization

The outcome of the codetermination dispute over the planned reorganization of Germany's Mannesmann Corp. is still uncertain, but executives of the Mannesmann holding corporation and union officials have agreed to meet again later this month. The dispute arose after management revealed

Mannesmann *(contd.)*

its plan to "lease" the holding corporation's subsidiary Hüttenwerke AG to the Mannesmann-Röhren-Werke (MRW) subsidiary. Economic reasons are reportedly behind the plan, which would put steelmaking (Hüttenwerke) and pipemaking (MRW) under one management. This would eliminate some 350 jobs and save at least DM 50 million annually in production costs. Mannesmann executives say the reorganization is necessary in order to remain competitive on international markets, where Japanese steel producers are offering substantially lower prices.

A legal side effect of the planned reorganization would be that the Mannesmann holding corporation would no longer be subject to the 1951 statute providing codetermination rights for labor in coal and steel production but would be covered by the less far-reaching 1976 Codetermination Law *(Doing Business in Europe, Pars. 23,222A, 23,222C, 23,441)*. Union leaders charge that the plan was conceived to escape application of the 1951 statute. Supported in their theory by leading Social Democrats, they see in the plan a general attack to dismantle labor's rights in corporate affairs. Indeed, if the plan is adopted, the unions would have only three men on the holding company's supervisory board instead of the present four under the 1951 statute.

Independent corporation lawyers agree that management could succeed with the plan, even if the supervisory board refuses to give its consent. There is no doubt that the latter will refuse because its "neutral man," a bank executive and registered Social Democrat, has said he will side with the labor representatives. However, management could then call a special meeting of the shareholders, who could overrule the supervisory board's veto. It is anticipated that management could easily muster the three-quarters' majority that would be necessary.

Union leaders and works council members of the companies concerned have presented a plan of their own that would preserve the composition of the current supervisory board of the holding. Under this plan, a contract between the works councils and the holding's managing board would retain labor's influence as granted under the 1951 statute. There have been instances in the past where application of the 1951 statute was preserved by contract even though the conditions for applying it were no longer present.

What makes the unions' plan so complicated is not so much the form (a collective bargaining agreement) but its content: under a separate contract, MRW would manage the Hüttenwerke on behalf of the holding; there would be one managing board for both the Hüttenwerke and MRW, but the work forces would remain separate, and each company would draw up its own balance sheet. The plan would be contrary

Mannesmann *(contd.)*

to Section 613a of the Civil Code, which stipulates that in corporate reorganizations the rights and obligations entailed in employment contracts fall to the successor, in this case MRW.

Italy: Better Growth, Finance Data for Industry

The most recent report issued by state-owned Mediobanca, Italy's leading industrial finance institution, confirms earlier official statistics showing improved growth and a somewhat stabler financial status of Italian industry last year. The survey covers 924 companies in about 30 manufacturing and services industries and, as such, is considered fairly representative.

The accumulated turnover of the 924 firms rose by nearly 27% over that of 1978. Even considering an average inflation rate of 15.2% last year, this reflected a healthy rate of growth, which also had some bearing on other key indicators. The total losses of all surveyed companies, for example, dropped by 68 billion lire to 2,022 billion, and the number of enterprises reporting losses also declined somewhat. The continuing high loss level overall was primarily caused by the poor performance of the public sector, where losses rose by 230 billion lire, whereas private-sector losses shrank by 298 billion. A similar trend was noted in the financial area, where the rise in corporate capital resources by some 1,600 billion lire last year was practically confined to the private sector. Another essential difference was the ratio of outstanding debts to the companies' own capital resources - 3.5:1 for the private sector and 13.2:1 for the public sector.

For the future, the Mediobanca experts predict a worsening of industry's overall situation as a result of the accelerating economic downturn and the impact of both credit curbs and the government's latest economic austerity plan. They are most concerned, however, about the steady and continuing decline of industrial investment since 1972, which in inflation-adjusted terms reached an absolute low last year. The concomitant over-aging of production facilities, Mediobanca says, will be a heavy burden on the international competitiveness of Italian industry in the coming years.

Luxembourg: Slowed Growth as European Banking Center

The previous rapid expansion of Luxembourg's role as an international banking center gave way to stagnation in the first half of 1980, and the number of banks operating in the Grand Duchy increased by only one, to a total of 109. The departure of two banks, resulting from the closure of Houston International and the fusion of Andresens Bank International with Christiania Bank, was offset by the entry of three banks from Switzerland, Germany, and Scandinavia.

Banking *(contd.)*

According to figures provided by the Luxembourg Banking Commissioner, the balance sheet total of all 109 banks reached LF 3,543 billion at the end of April, up from LF 3,253 billion at the end of December 1979. Currency deposits represented LF 3,069 billion of the banks' assets at the end of April, compared with LF 2,820 billion at the end of last year. Luxembourg's share of the total Euromarket volume fell from $79.4 billion (12.4%) to $77.4 billion during the same period.

In the first quarter of 1980, the most important currencies in the Luxembourg Euromarket were the Deutschmark (48.7% of assets and 42.4% of liabilities), the dollar (36.9% and 44.5%, respectively) and the Swiss franc (8% and 7.1%). The participation of Luxembourg banks in the syndication of new Eurobond issues stagnated at 23.7%, with a much reduced total volume of $1.8 billion. The share of such issues quoted on the Luxembourg exchange fell heavily to only 25.3% in the first quarter of 1980, from 45.6% in 1979; this was principally the result of a predominance of DM bonds, which can be quoted only on German exchanges.

Greece: Free Currency Market; Eased Price Controls

Greece is to take a further step toward economic liberalization with the creation of a free market in foreign exchange transactions. A bill to be presented to Parliament will allow authorized banks to take up trade on their own account in foreign currencies and bills. In his announcement of the plan, Prof. Xenophon Zolotas, governor of the Bank of Greece, said that a managed interbank market for the drachma will be introduced on a trial basis as early as Aug. 27. The official parity of the drachma will be determined in a daily fixing by the Bank of Greece and the authorized commercial banks. Zolotas hopes that by mid-October the new interbank market can fully replace the present system under which the Bank of Greece alone sets the daily exchange rate of the drachma.

The government hopes that the new system will help eliminate the inflationary impact of rising import prices by stabilizing the parity of the drachma. The central bank's prevailing policy of managed floating has recently forced the drachma into a de facto devaluation, exacerbating the inflationary pressures. Scheduled to enter the European Community on Jan. 1, 1981, Greece is committed by its treaty of accession to replacing the current system for fixing the drachma's value by that date. The treaty also stipulates the introduction of full convertibility of the drachma for most transactions by the end of 1985.

In another liberalization move, Trade Minister Stefanos Dimas has announced the lifting of price controls on 100 industrial products, including black-and-white TV sets and numerous metal products. It is believed that suffici-

Currency *(contd.)*

ent competition exists in the market for these products, so that prices can be subject to the normal rules of supply and demand. Although this is only a first step, the government hopes that it will eventually be able to restrict price controls to only those basic goods whose prices tend to have a correspondingly greater impact on the price index.

Measures are also being taken to reduce the deficit on Greece's balance of payments. Since interest rates on dollar and pound sterling deposits in the Greek banking system were freed from official controls on July 1, the Bank of Greece has been paying a supplementary 0.5% interest rate bonus to depositors who accept all their interest payments in drachmas. Unconfirmed reports are also circulating that the government is about to announce the legalization of currency deposits hitherto held illegally abroad by Greek residents.

EURO COMPANY SCENE

Royal Bank of Canada/ Empain-Schneider/ Banque Belge

The Royal Bank of Canada and the Belgian Empain-Schneider group have signed an agreement whereby the Canadian bank will raise from 25% to 62.5% its participation in the Banque Belge pour l'Industrie, Brussels, pending approval by the regulatory authorities. After the deal is completed, the remaining equity would be equally divided between SA Electrorail and the Banque de l'Union Européenne, both of which are part of Empain-Schneider. However, the Royal Bank would have the option to purchase the remaining stock in Banque Belge in 1984.

Nordic bank

Four major Scandinavian banks have announced plans to establish a new Nordic bank in New York at the turn of the year. The bank, which has not yet been given a name, will have a share capital of $40 million and is to become active in financing trade and other forms of cooperation between the U.S. and Scandinavia. The four corporate shareholders of the new institution will be Denmark's Den Danske Bank, Norway's Christiania Bank, Sweden's Post- og Kreditbanken, and the Union Bank of Finland.

Am. General/ Fidelity & Deposit/ Zürich/ Schweizerische

American General Corp., of Houston, has agreed in principle to sell for about $135 million its Fidelity & Deposit (F&D) subsidiary to two major Swiss insurers, Zürich Versicherungsgesellschaft and Schweizerische Rückversicherung. The joint acquisition is subject to the completion of a definitive purchase agreement and regulatory approval. Baltimore-based F&D is one of the leading U.S. surety and fidelity insurers, with a gross premium income of about $107 million.

Common Market Reports

EUROMARKET NEWS

Issue No. 605 *Report No. 403, August 20, 1980*

IN THIS ISSUE

Community: [illegible]e to Control [illegible] to Public Enterprises

The Commission has adopted a directive that compels Member State governments to disclose any type of aid to state-owned enterprises or other businesses in which public authorities hold a majority interest, control the majority of votes, or appoint more than half of the directors on the boards. Exempt from the directive are public enterprises that render services not affecting intra-EEC trade to an appreciable extent or which are engaged in the water supply or energy sectors. Also exempt are postal services, telecommunications, transport, public credit institutions, and generally all public enterprises with annual sales below 40 million units of account during the two preceding financial years. The States have until the end of 1981 to comply with the measure (Official Journal No. L 195; July 29, 1980; page 35). (The Treaty of Rome empowers the Commission to issue directives or adopt decisions to ensure application of EEC competition rules - *Common Market Reports, Pars. 2351, 2361.*)

The purpose of the directive is to establish if and to what extent Member State governments are helping state-owned enterprises, thus contributing to distortion of competition to the detriment of private companies in the same State or other Member States. State aid can take on many

This issue is in two parts. This is Part I.

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Aid Move *(contd.)*

forms, including outright grants, interest-free loans, and compensation for financial burdens, such as taxes, imposed by public authorities.

The directive requires the governments to draw up an inventory of the type and volume of aid and to keep the information at the Commission's disposal for a five-year period from the end of the financial year in which aid was given. The Commission may request this information and ask for additional background material, especially on the objectives pursued with the aid. The Commission may not reveal any information of the kind usually covered by the obligation of professional secrecy - for instance, exactly how much money was given to a particular enterprise. However, it retains the right to use the information in a general report so long as it does not mention particular government-owned enterprises.

By adopting the directive the Commission has demonstrated its determination to enforce EEC competition rules with respect to state-owned enterprises. It remains to be seen whether the EC executive will eventually bring national governments before the European Court of Justice if state aids are not scaled down or eliminated. The plan for such a directive was conceived in the mid-'70s, but opposition from several States, notably Britain, France, and Italy, was so strong that at one point Commission lawyers had doubts their plan would materialize at all. Only Britain has relented; Italy and France remain as adamant as ever in their opposition to revealing details about aid.

Italy is considered the worst offender so far as state aids are concerned. Its huge conglomerate IRI reportedly has been receiving government subsidies averaging about $1 billion annually. Commission lawyers believe that the figure may turn out to be much higher once Rome makes a full inventory of all types of aid, as the directive requires. IRI controls some 600 subsidiaries, among them Alfa Romeo, more than half of Italy's steel mills, and dozens of other companies producing a broad range of industrial products.

Brussels Seeks Common Rules on Retirement

The Commission is striving for a common approach to the problem of a flexible retirement age in the Member States. In a communication addressed to the Standing Committee on Employment, it also has come out in favor of a common system that would allow a gradual retreat from working life and thus ease the shock that many employees experience upon abrupt retirement. In October the committee will discuss the Commission paper, which must be seen in the broader context of working hours and current high unemployment. Last December the Council approved a resolution on the reorganization of working time calling for specific proposals.

Several States have enacted legislation on flexible

Retirement *(contd.)*

retirement. In Denmark an employee may retire at the age of 55, in Belgium men at 60 and women at 55. In Germany the early retirement age is now 63. What the Commission would like to see are flexible retirement arrangements in all States, whereby workers could retire at any time between a specified minimum age and the maximum retirement age under such conditions that their choice is not unduly influenced by large differences in retirement benefits.

Since doctors and psychiatrists have been warning for quite some time about the problems faced by many employees when they retire abruptly, the Commission recommends the introduction of staggered retirement. Workers would not retire immediately upon reaching the minimum retirement age but would have the opportunity of working fewer hours before retiring. Any loss of earnings would be compensated, subject to certain limits, but employees would not be prejudiced in their old-age pension rights.

The Commission also favors the introduction of a corrective system to ensure that the impact of flexible or staggered retirement arrangements is geared to the needs of the economy as a whole. In periods of continued unemployment, for example, the Commission would like the governments to induce workers in the early retirement bracket to retire by granting financial incentives and to ensure that employers hire unemployed persons. In times of full employment, employees who actually could take advantage of the early retirement arrangement should be encouraged to stay on, according to the Commission's plan.

In Brief...

The Commission has proposed to the Council a 25% increase in the number of Community licenses for transporting goods by road between Member States. If the increase goes through, the number of national trucks allowed to transport goods throughout the Common Market in 1981 would be 4,788. The individual states would have the following number of licenses: Germany, 862; France, 784; Netherlands, 747; Italy, 674; Britain, 523; Belgium, 517; Denmark, 358; Luxembourg, 133; Ireland, 95; and Greece, for the first time, 95 + + + France's veto has blocked an agreement between the EEC and New Zealand over butter exports to the Common Market; the agreement was to take effect on Aug. 1. France, which was understood to have accepted the agreement at the last Council meeting on July 20, now insists on additional commitments from the New Zealand government to further cut back butter exports to the EEC.

Britain: Enterprise Zones in Inner City Areas

In its Budget proposals last March, the U.K. government had outlined proposals to establish enterprise zones in derelict and deprived inner city areas. Prime Minister Margaret Thatcher has now announced that seven such zones have

Zones *(contd.)*

been allocated and would be operative as of spring 1981, after the requisite legislation has been passed. In fact, because of the enthusiastic response from a number of other local authorities, one or two additional areas probably would be designated later, according to Mrs. Thatcher.

The maximum area of an enterprise zone would be 500 acres, and its initial duration would be 10 years. Companies establishing an enterprise within a zone, including firms already operating there, would be exempt throughout this period from development land tax and from all industrial and commercial property rates. They would receive 100% capital allowances on investment in commercial and industrial buildings. They would not need industrial development certificates and would be exempt from industrial training board requirements. The emphasis would be on reducing bureaucracy as far as possible - for instance, by according priority in customs clearance and planning procedures. However, there would be safeguards that health, safety and pollution regulations are enforced and that no proposed development becomes a "legal nuisance." The annual cost to the government is likely to be £10 million per year, mostly in the form of compensation to local authorities for revenue losses.

The seven enterprise zones proposed so far are the Isle of Dogs, in London's docklands; parts of Newcastle and Gateshead, on Tyneside; Speke, on Merseyside; parts of the Salford Docks area, in Greater Manchester; the Trafford Park Industrial Estate; the inner area of Belfast, in Northern Ireland; the lower Swansea Valley, in Wales; and parts of Clydebank, Scotland. The one or two additional areas to be designated later would include one in the Midlands (Wolverhampton, Corby, or Dudley).

Mrs. Thatcher stressed that the zones would encourage investment and initiative as well as job creation. However, their success would depend in large measure on the willingness of each local authority to agree on planning relaxations and the ability to come to quick decisions. The proposals also have been broadly welcomed by the Confederation of British Industry as demonstrating the benefits to business of working in an environment free of many of the usual restraints. Some critics feel, however, that the main impact will be to influence the location of commercial development within a city area rather than to persuade manufacturing industry to move in from outside.

Germany: Tax Plans for Real Property, Phone Calls

Real property owners in Germany could be paying substantially more tax in the coming years if a plan conceived by officials in the finance ministry is carried out. The higher burden would not result from an increase in the tax rate, which is comparatively low, but from increased as-

Tax Plans *(contd.)*

sessed values as based on the last principal assessment of real property as of Jan. 1, 1964, plus 40% to reflect to some extent the rise in value since then. Proposed is a full adjustment, bringing the existing assessed values in line with the commercial value of real estate (by adding 60% to the 1964 values). This would produce substantially more revenue for all levels of government because the assessed values are not only applied in computing the real estate tax but also in assessing net worth, estate, and business capital taxes *(Doing Business in Europe, Pars. 23,361A, 23,363, 23,385)*. Moreover, assessed values are also used for income tax purposes whenever the taxpayer owns and lives in a one-family house or condominium. Estimates on how much the government could expect in additional revenue range from DM 3 billion to 5 billion annually.

Going one step further in the philosophy that everything that can be described as income should be taxed, the finance ministry is considering one more possible source of revenue - taxing the use of company telephones by employees for private calls. Rules are now being drafted that would attach a fictitious value to such calls and add it to taxable income. Making private long-distance calls from the job is a widespread practice in Germany. According to the draft, only long-distance calls would be covered, not local calls. The employer would have to make random checks to see whether employees make private calls; company announcements prohibiting employees from using company phones for private calls would not relieve the employer of his duty to check.

Belgium: Passage for State Reform; 1981 Budget

Both houses of the Belgian parliament have finally passed the major part of constitutional reform legislation, which has been an explosive national issue for more than 10 years and gives partial political, economic, and cultural autonomy to the country's two rival regions, Flanders and Wallonia. In the lower-house balloting on Aug. 5, the vote was 156 to 19, with five abstentions. The Senate subsequently confirmed the measure.

Parliamentary passage was possible only because the reform law, with its 92 articles, does not deal with the status of Brussels, the capital, and its possible regionalization. The Flemish factions oppose such a regionalization because they fear that it would give too much political clout to the Walloons. An old Flemish city in Brabant province, Brussels in the postwar years attracted a large influx of French-speaking people, who currently make up about 80% of the local population. The status of Brussels will again become a very troublesome issue for the government and Parliament following the summer recess, and observers do not have much hope for a speedy solution.

State Reform *(contd.)*

Under the new constitution, Flanders and Wallonia will elect their own regional parliaments and governments for the first time in the fall of 1982. The two regions, which politically replace the existing provinces, are being given limited economic and fiscal powers as well as authority over matters concerning public health, cultural affairs, and urban projects, among others. These areas reportedly represent about 10-15% of the national budget. An arbitration court will decide on possible jurisdictional conflicts between the regions and the central (federal) government.

In other news, the Martens administration has presented its 1981 budget draft, with which it undertakes another modest effort to reduce the large finance deficits. With proposed expenditures of BF 1,195 billion, the public-sector borrowing requirement would come to BF 242 billion in 1981 as compared with 253 billion this year. The deficit growth is to be limited to 6.4% of GNP (7.3% in 1980). Businesses will profit from the abolition of the 5% value added tax on investments. As of Oct. 1, VAT on all motor fuels will be raised from 16% to 24%, while excise tax on gasoline will be lowered to the same extent. For all other fuels, except coal, there will be a uniform VAT rate of 16%, which means price increases of 10% for heating fuels and natural gas. All tax measures in the energy sector are estimated to bring in BF 3.1 billion annually in extra revenues. Civil service employees will have to contribute 2% of their pay toward their pension insurance system; in practical terms, this amounts to a reduction by BF 6 billion of the usual inflation adjustments of civil service salaries. Tougher measures against tax evasion are expected to result in additional revenues of BF 15 billion for the treasury.

<u>France: Eased Takeover Rules for EEC Investors</u>

Investments in France by companies from other EEC countries, including takeovers, will be eased by revised regulations recently published in the government's official journal. In the future, EEC-based foreign investors will no longer have to wait indefinitely for treasury approval of their takeovers or share purchases in cases where these exceed 20% of the share capital of a French firm. Instead, investment plans must merely be reported to the treasury, and they are automatically approved if no official objection has been raised within two months. In the future, Paris will block takeover plans only when they appear to pose a threat to public order, security, military defense, or public health. Government officials will use the two-month period to verify the EEC origin of the investment; third countries will not be permitted to channel their investments through EEC countries in order to take advantage of the new rules.

The rule change follows growing complaints from

Takeovers (contd.)

France's EEC partners concerning alleged infringements of the provisions on the freedom of capital movement contained in the Rome Treaty. Previous arrangements under which the government could indefinitely delay approval of proposed investments appear to have been used to gain time in which to look for French alternatives to foreign takeovers. Well-known examples include the stalling of General d'Electricité's attempt to sell 50% of a loss-making subsidiary to Germany's Siemens: eventually a French company was found to take over the ailing company's shares. Similar problems arose when Britain's Lucas Industries tried to take over an automotive components group previously owned by the Bendix Corp. After a long court battle, Lucas had to satisfy itself with less than half of the shares, while a French company received the rest.

For non-EEC investors, the old "20% rule" continues to remain in force. If an investment involves the purchase of more than 20% of a French firm's capital, or if more than 20% is accumulated through stock market purchases, specific government approval is required. The same is true if patent or trade agreements, or other shareholdings controlled through subsidiaries, bring effective control up to over 20%, even though the direct stake amounts to less than 20%.

Total foreign investment in France reached FF 15.2 billion in 1978. Of this, 58% (FF 8.7 billion) originated from EEC countries and 15% from the United States.

mark: Investment Fund Pressures on Insurers

The Danish government is threatening to abolish certain tax freedoms of the country's insurance companies and pension funds unless they accept its plans to set up a special fund to transfer some DKr 5 billion a year of their assets from fixed-interest papers to industrial investment. Funds available for investment by the insurance sector have been growing rapidly under the impact of the country's high interest rates. Last year they increased by DKr 13 billion, and the National Bank predicts a rise to DKr 18 billion for next year and to as much as DKr 35 billion in five years. The insurers invest most of their funds in long-term mortgage bonds, at effective interest rates of about 20%.

The National Bank, however, is uneasy about the government's plan for using pension and insurance funds to stimulate industrial investment. It has warned of unexpected effects should industry use the funds to pay off foreign loans instead of financing new investment. According to Bank spokesmen, there can be no effective control over the use of the funds. The first danger signal would be a sudden fall in the Bank's foreign currency reserves. The National Bank favors taxing the insurance companies on the growth of their assets.

Insurers *(contd.)*

The pension funds complain that their payments to pensioners are already regarded as taxable income, so that taxation of the companies themselves would amount to double taxation. The Conservative opposition also rejects a change in the insurers' tax status. The employers' federation, however, is more concerned to prevent any move toward investment controls that might result from the government's plan to redirect insurance funds into industry. Only the trade unions are both demanding the taxation of the companies and urging the implementation of the investment fund plan.

Norway: Domestic Demand to Spur Growth, OECD Predicts

Domestic demand will constitute a bigger growth incentive this year than the export trade, predicts the OECD in its latest prognosis on the Norwegian economy. On account of rapidly rising consumer prices, real-term incomes will grow by no more than 2%, despite the 11-12% increase in nominal incomes expected after the lifting of the price a wage freeze at the end of 1979. The gross national product for mainland Norway is expected to increase by 2.25%, somewhat less than in '79. If the oil activities are included, GNP should rise by 4.5%, according to the OECD.

The Paris-based organization paints a somewhat brighter picture of anticipated economic developments than the government did in its revised 1980 budget submitted last spring. Whereas Oslo predicted that industrial production would climb by 1.5% this year, the OECD has put this figure at 2%. The latter's 9.25% estimate of consumer price expansion also is slightly lower than the government's 9.5%. Resulting from higher prices for oil and gas, Norway's payments balance should show a surplus of $1.5 billion this year compared with a deficit of $1.2 billion in '79.

Common Market Reports
EUROMARKET NEWS

Issue No. 606 *August 26, 1980*

IN THIS ISSUE

Community: Action Soon on Technical Barriers

The European Commission hopes to make some progress this fall in its drive to bring down existing technical barriers to intra-Community trade. Technical barriers, especially those created by different national standards, have worried the EC executive and the Member State governments for some time, but only recently have chances improved to the extent that something constructive can be done about them. Within the next two months the Council of Ministers is expected to discuss a report on how to cope with the problem of differing national standards for industrial products. The report, prepared by members of a committee of senior national officials and experts on standards, recommends the designation of an organization or an individual to be contacted when a manufacturer experiences difficulties in the Member State of importation. It also suggests that each State designate a laboratory to which a manufacturer from another State could bring his product for safety and other tests.

The European Parliament is expected to suggest possible solutions to standardization problems this fall, when it will discuss a subcommittee report calling on the Commission to set up an information center for companies encountering difficulties in exporting to other Member States.

Even though accused by other national governments of

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Barriers *(contd.)*

using its DIN standards to keep out products from other Member States, the German government nevertheless has tak the offensive with a report of its own based on about 80 complaints by German producers and highlighting nontariff barriers to inter-State trade. This report will reach the Commission and the European Parliament next month. In more than 25% of the cases compiled in the report, German manufacturers complain about the certificate of origin requirements introduced by several Member States for a number of products. Italy and France are listed as the main offenders.

Meanwhile, the Commission has singled out one case that has given rise to widespread concern throughout the Community. It has taken the required preliminary procedural steps before bringing France before the Court of Justice under Treaty Article 169. Paris allegedly violated Treaty obligations when Parliament passed a law requiring textile manufacturers exporting products to France to attach a certificate of origin indicating the country in which the product was made. This legislation originally was to take effect on Jan. 1, 1980, but the Commission was successful in obtaining an extension until Oct. 1.

France justifies the law by saying this is the only way to prevent third-country imports, especially from eastern Europe, from entering the EEC via another Member State and thus duty-free. Commission attorneys say the law is contrary to Treaty Article 30, which bans quotas and similar barriers, and Court of Justice case law. Observers see in the requirement a disguised way of discriminating against products from other Member States. Several States, especially West Germany, take advantage of Community rul that allow national textile manufacturers to export base products, have them processed at low cost outside the EEC, and reimport them; such products may be freely distributed within the Common Market.

Commission's Guidelines on Part-Time Work

The growing significance of voluntary part-time work has prompted the Commission to submit to the Standing Committee on Employment a number of guidelines outlining the kind of action that should be taken by the Community and the Member States. Since the number of part-time jobs sought is much higher than the openings available, the Commission urges national governments, unions, and employer organizations to improve the opportunities for those who wish to work part-time. It also makes the point that such work should not be thought of as the exclusive preserve of women and unskilled labor, as is the case at the present time.

In its communication to the committee, the EC executive stresses how part-time work has changed and grown in recent years. Previously part-time workers were primarily a sort of buffer stock of labor which industry could tap

Part-Time Work (contd.)

when needed. Today certain manufacturing sectors, especially the electronics and service industries, have come to rely extensively on part-time employment. Furthermore, the demand for part-time workers is bound to increase since the service industries are expanding. In the Commission's view, the rapid growth in the volume of part-time work often has not been to the advantage of the workers with respect to pay and working conditions, when compared to the situation of full-time employees.

Last December a Council of Ministers' resolution to establish a policy on part-time work laid down several principles for Community and Member State action. In line with these principles the Commission favors abolishing most facets of discrimination against part-time workers, creation of new part-time job opportunities for those who want them, and promotion of new forms of part-time work. These objectives would have to be backed up by minimum standards, according to the Commission, although the national parliaments and parties to collective bargaining would be free to establish higher standards.

Community legislation would have to establish minimum conditions for joining the national social security systems; these conditions could be based either on a minimum of working hours or the level of earnings. Equal treatment should, in the Commission's view, at least involve company pensions, individual employment contracts on working hours and pay, and protection against discharge. Part-time workers, to the extent that they qualify and wish to change jobs, should also have priority when full-time work becomes available. Finally, the Commission believes part-time employees should be allowed to vote and run for office as labor representatives on the shop or management level.

Britain: Changes Due in Personal Bankruptcies?

In a Green Paper titled "Bankruptcy - a Consultative Document" (Cmnd. 7967), the U.K. government has proposed fundamental changes in personal bankruptcy proceedings, which would lead to an annual saving of £3 million and a Dept. of Trade staff reduction of 570. A simpler and more straightforward procedure would be introduced, which would no longer rely on official receivers but on private receivers. These would be "suitably qualified people" - presumably, accountants and solicitors, who would be appointed by the court and operate under the court's supervision. However, no change is proposed in the role of the official receivers in the compulsory winding up of companies.

The proposed changes would effectively result in two different bankruptcy systems, which would be at variance with the recently published recommendations of the Insolvency Law Review Committee headed by Sir Kenneth Cork. The Cork Committee said it was convinced of "the need for

Bankruptcies *(contd.)*

greater integration between the procedures which relate to insolvent individuals and those which relate to insolvent companies." The Committee graded insolvencies, so that the full rigors of bankruptcy would be applied only (1) where the size of liabilities in relation to available assets, or other factors, suggest that there "may have been" serious misconduct, dubious commercial practice, or fraud, (2) where the case is otherwise a matter of public concern, and (3) where the debtor has deliberately failed to cooperate in other, less severe types of insolvency proceedings.

It appears, however, that the government is not so much concerned with such fine distinctions (which would require a large, specially trained staff) as with the reduction of overhead. It is estimated that the proposed changes would reduce the number of official receivers from the present 32 to eight by 1984-85. The Dept. of Trade would have more time to concentrate on other matters. As regards companies in voluntary liquidation, investigations of fraud will continue as at present, and the voluntary liquidator will be required to report all relevant facts to the Director of Public Prosecutions.

Under the new system, after a petition has been presented by a creditor, the court would appoint a receiver. The latter's initial remuneration and expenses (likely to amount to some £300) would be underwritten by the petitioner. The procedure would still remain under official control to ensure the continued protection of creditors' rights. The receiver would be supported by the authority of the court and would be under the supervisory control of the Dept. of Trade.

It is hoped the new measures will apply by the end of 1982. The government believes they will be as effective as the existing ones in deterring insolvent traders and ensuring payment of debts. However, an opposition Labour spokesman has described the proposals as an "unscrupulous debtors' charter."

<u>Belgium: State Savings Bank Given Enlarged Role</u>

Along with the state reform and budget legislation, the Belgian parliament this month has also provided the statutory base for the long-considered project of a Belgian state bank. This role is to be assumed by the General Savings and Pension Bank (Caisse Générale d'Espargne et de Retraite/Algemene Spaar- en Lijfrentekas), which last year reported a balance sheet total of BF 696 billion. With more than 1,000 branches and 7,650 employees, the CGER describes itself as the world's largest savings bank, and it ranks as Belgium's No. 2 commercial bank, after Société Générale de Banque.

The CGER's activities so far have been largely con-

State Bank
(contd.)

fined to accepting savings deposits of private households, which totaled BF 340 billion last year and were, for the most part, used in financing housing mortgages. The other major customers are the government authorities, which in 1979 received BF 123 billion in credits, and the public utilities (BF 60 billion). Credits to private industry totaled BF 102 billion, but here the bank had to operate within certain legal constraints. The new legislation will give the Caisse Génerale access to virtually all banking activities, including foreign transactions.

The private bankers are viewing the strengthened status of the CGER with some misgivings, especially since Belgium has a concentrated banking community and the public institutions account for nearly half of the deposit and loan business. The private banks also fear that cost advantages and an aggressive marketing strategy on the part of the state bank could lead to competitive distortions. The Caisse Génerale operates under a state guarantee, does not pay dividends to private shareholders, and is not subject to the same solvency and control regulations as its private competitors. It is also engaged in some nonbanking activities - for instance, through life insurance operations tied to the mortgage business.

The parliamentary lawmakers have taken account of some of these objections. They did not extend the state guarantee to the CGER's new activities and also specified separate accounts for these activities. Further, the bank will come under the control of the Banking Commission, even though its solvency and profitability rules will be imposed by the Finance Minister.

Many financial observers are convinced that the newly enlarged Caisse Génerale will prove a lesser threat to the Belgian commercial banks than their foreign counterparts. Belgian investors are now increasingly attracted by the higher interest rates prevailing abroad and by the absence there of a 20% tax on interest income withheld at the source. Also, the state bank is expected to find itself exposed to the far-reaching finance needs of its public shareholders, which would tend to curb its other engagements. The commentators point to the example of the state-controlled National Industrial Credit Corp., which encountered liquidity problems last spring after coming to the aid of the ailing steel sector.

Germany:
Bonn Plans to Cut Banks' Holdings

The influence of German commercial banks over industry and commerce would decline considerably if a bill the government is now considering were to become law. Among other things, a bank's equity in a company would be limited to 10% of the latter's stock. German banks own stock worth a nominal DM 6 billion and hold a further DM 38 billion on

Bank Holdings *(contd.)*

behalf of their depositors, accounting for more than half of all shares quoted on the national stock exchanges. There have been perennial discussions about the propriety of these large holdings.

Last year a special government commission came up with a number of recommendations on how to curtail the banks' powers. One suggestion was to cut back a bank's equity interest to 25% plus one share. This proposed limit was taken from the German stock corporation law, which enables the holder of such a "blocking minority" *(Sperrminorität)* to exert certain controls over management and to block resolutions aimed, for instance, at amending the articles of incorporation, capital increases, and mergers. Originally, government officials wanted to go along with this idea, but leading Social Democrats intervened and prevailed with the 10% ceiling.

There would be several exceptions to the planned 10% equity ceiling. Banks would be allowed to acquire a larger stake whenever this was in the interest of the company concerned (for example, to help in financial difficulties) or in the public interest (to solve a structural crisis or to ward off an undesirable sale of stock to foreign investors). A grandfather clause would give the banks eight years to sell their excess stock holdings. Since many medium-sized banks have exceptionally high stakes in a few commercial companies, a further extension could be granted in individual cases to avoid problems that a sale of stock might cause for the particular bank.

The preliminary bill follows the majority recommendations of the commission with respect to the banks' practice of exercising proxy voting rights. The current system of bank officials voting according to shareholder-depositors' instructions would be retained. However, bank management would not only have to seek authorization from each shareholder for each shareholders' meeting but would also have to obtain specific instructions on how to vote on agenda items such as amendments to the articles of incorporation, capital increases, and merger resolutions that call for a majority of no less than three-fourths of the stated capital represented. The bank would have to seek special voting instructions from each shareholder if a bank executive is a member of the company's supervisory board (which usually reflects the banks' influence via equity interests) and if supervisory board elections are on the agenda.

Sweden: Parliament Session Over VAT Increase

The Swedish parliament is taking the unusual step of interrupting its summer recess this week in order to debate government plans to raise value-added tax by 1.9% to 22.53%, which would be a record for Europe. Pressure from the opposition Social Democrats had forced Prime Minister Thor-

VAT Increase (Cntd.)

björn Fälldin to drop his attempt to have the VAT increase passed by the parliamentary tax and finance committees, which can mandate immediate implementation of tax measures pending parliamentary approval. The government also proposes to raise family allowances by SKr 200 per year per child and is submitting a program calling for public spending cuts of SKr 7 billion. The special session was expected to last until Sept. 5.

Opposition to the government coalition's economic policy has risen to such a pitch that Social Democrat leader Olof Palme has refused to discuss possible support for any new measures unless the planned VAT increase is scuttled. Palme's closest associates as well as many trade union leaders are openly calling on the government to resign and clear the way for new elections. Employers' federation chairman Curt Nicolin also has expressed doubts about the timing of the VAT move and warned that it might serve only to accelerate an approaching recession.

The VAT proposal is prompted by the continuing price rises, matched by the unabated growth in consumer purchasing power. Inflation hit a 13.4% annual rate in July. It is certain to exceed the 2.7% threshold for price rises between March and October above which workers were promised an extra 1% wage increase as part of the settlement that followed the May general strike. The difficulties are compounded by a rapidly deteriorating balance of payments, expected to exceed SKr 20 billion this year, after SKr 11 billion in 1979. A trade deficit of SKr 6 billion was reported for the first half of the year, and the currency outflow in the second quarter amounted to SKr 2.5-2.8 billion. Continuous government borrowing abroad has boosted Sweden's foreign debt to SKr 34 billion.

Fälldin apparently believes that a major source of the problem lies in the further rise in consumer purchasing power resulting from the May settlement. (The 1.9% VAT increase would absorb about SKr 3.2 billion of purchasing power, according to some estimates.) However, other members of the three-party coalition government, including Economics Minister Gösta Bohman, who is also the leader of the Conservatives, attribute the cause of the problem more to the size of the budget deficit. Total public indebtedness reached SKr 207 billion in July and amounted to 40.3% of GNP last year.

Portugal: Expropriation Compensation; OECD Survey

The first agreements have been reached on compensating foreign investors for property expropriated by the Portuguese government in 1975. Two Spanish banks will receive about $3 million in the form of high-interest state bonds in settlement of claims arising from nationalization of their Portuguese holdings. The bonds can be sold immediately, Compensation *(contd.)*

and the proceeds are transferable abroad. This method of compensation is expected to set the pattern for other outstanding foreign claims. The government hopes that its effort to speed up compensation will encourage foreign investment in Portugal.

In other news, the recently published OECD Survey on Portugal predicts a 3.5% growth of GNP this year, following 4.1% in 1979. While optimistic that inflation will fall to 20%, from last year's 24%, the Secretariat warns that the economic situation as a whole is precarious. With unemployment at 8% and per-capita GNP at $1,820 (about half that of Spain), Lisbon cannot afford to adopt a slow-growth strategy, even though inflation is the principal problem. The OECD urges the government to further encourage the inflow of foreign capital and warns against a too-heavy emphasis on the state sector in capital investment. The state's share of total fixed capital formation reached 25% last year, at approximately 35 billion escudos.

Common Market Reports

EUROMARKET NEWS

Issue No. 607 *Report No. 404, September 4, 1980*

IN THIS ISSUE

Community: Probe Asked of French Drug Price Practices

The European umbrella organization of the Member States' national associations of pharmaceuticals manufacturers (EFPIA) has asked the Commission to investigate whether France's drug price provisions and other administrative practices are compatible with the Treaty of Rome. Representatives of the Brussels-based organization contend that France is violating Treaty Article 30, which bans quotas as well as measures having a similar effect.

Manufacturers exporting pharmaceuticals to France have been complaining for years about the French government's policies to protect the country's own drug industry and to keep health costs down. The Treaty of Rome brought no basic changes because production, marketing admission, and distribution of drugs are governed by national rules. EEC legislation has been so slow in opening national markets that the Commission recently reminded drug manufacturers about the advantages of using the committee procedure to sell in the EEC *(Common Market Reports, Pars. 3502, 3504, 3504H)*.

French price regulations are stricter than others in the EEC. The government demands that French drug manufacturers and domestic subsidiaries of foreign companies present detailed data about the price factors of a particular drug, including the

This issue is in two parts. This is Part I.

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price of active ingredients and actual production and research costs. No manufacturer can afford to withhold the information because otherwise his product will not be put on the list of drugs approved for the health insurance funds.

Several months ago French officials raided the offices of a number of subsidiaries of foreign-based companies and confiscated files and documents. The authorities believed that the management of the subsidiaries had intentionally overrated the customs value of active ingredients purchased from the parent companies abroad in order to reduce their profits and thus escape taxation. Since then, most of the subsidiaries have decided to accept the compromise settlements offered by the government rather than have their products removed from the approved list.

Many foreign drug manufacturers charge that the French authorities, in their efforts to keep health costs down, have resorted to methods that cannot be reconciled with sound economics or the Treaty of Rome. French customs calculates the research cost proportion of the prices charged to the subsidiaries by looking at the costs incurred by French manufacturers or by comparing the prices of imitated drugs (which are low because the manufacturer had no cost in developing and introducing the drug). This means that a foreign manufacturer may not be able to recover a part of his R&D costs when selling ingredients to his French subsidiary. There is agreement in most Member State capitals that this practice is tantamount to a measure having an effect equivalent to quantitative restrictions within the meaning of Treaty Article 30 *(Common Market Reports, Pars. 321, 322.09, 322.11)*.

Last April Switzerland's Sandoz Corp. and its French subsidiary won a major victory before the European Court of Justice, which held that transfer pricing within multinational companies does not violate EEC customs regulations. The admissibility of comparing prices, including research costs, with prices of imitation products was a major issue in the dispute between Sandoz and the French authorities (Judgment of April 24, 1980; Case No. 65/79).

Success in EC's Energy Savings Drive Reported

Since 1974, the Community's nine Member States have saved 7-8% each year in crude oil imports. This saving, amounting to some 70 million tons annually and valued at about $13 billion, reduced the Community's dependence on energy imports from 63% in 1973 to 54% last year.

According to the Commission's first intermediate report covering the activities of the EC's energy and research policies for the 1974-79 period, most of this success can be credited to the Member State governments' energy conservation measures. Although the intensity of the national efforts varied, none of the nine governments could afford to ignore the threat to price stability and balances of payments after the OPEC countries almost tripled crude oil prices following the Arab-Israeli war in October 1973. The Commission makes the point, however, that the Community's action program also contributed substantially to energy savings through the EC's financing of research into new energy resources and means of conserving conventional energy. Furthermore, grants given to coal mines under the Coal and Steel Treaty helped coal production in the Common Market reach a peak level of 240 million tons in 1979.

The Community's crude oil imports dropped from 573 million tons in 1973 to 475 million tons in '79. The realization of Britain's oil claims in the North Sea has helped a great deal, according to the report. Since oil prices have more than quadrupled in the five years of OPEC's steamroller pricing policy, the report notes, the burden on the Member States' balance of payments rose from roughly 10 billion units of account in 1973 to about 50 billion UA in '79. For 1980 this overall burden is expected to go up to 77 billion UA, provided oil prices stay at their present level during the remaining months of this year.

In a preface to the Commission's report, energy commissioner Guido Brunner points out that despite the success to date, much remains to be done, especially in the development of a common energy policy. Brunner believes that only the coordination of the Member States' price and tax policies will really put an end to wasting oil and other energy resources. The Member States must be prepared to invest some $500 billion in the development of alternate energy sources in this decade, and only then will the Community's dependence on expensive and uncertain crude oil imports decline further, Brunner concludes.

Germany: Growing Opposition to Accounting Bill

There is mounting opposition in the German business community to the government's preliminary bill on accounting that would bring German accounting rules up to the standards established by the EEC's Fourth Council Directive on annual accounts of certain companies. The directive sets forth detailed rules on the content, auditing, and publishing of a company's annual financial statements and also describes the methods that management must use in evaluating corporate assets *(Common Market Reports, Par. 1391)*.

Compliance with the EEC directive requires, among others, changes in the law governing German stock corporations and large limited-liability companies. The former must prepare and publish annual financial statements in any case, and the latter must do so if at least two of three criteria are met - a balance sheet total exceeding DM 125 million, annual sales of over DM 250 million, or 5,000 employees or more. Compliance would also impose EEC accounting standards on some 90,000 of the country's 190,000 limited-liability companies *(GmbHs)*. These companies are at present covered by the Commercial Code's limited rules governing bookkeeping of all small businesses. Small GmbHs that stay below at least two of three EEC ceilings (DM 2.85 million balance sheet total; DM 5.7 million annual sales; 50 employees on the average during the financial year) would be allowed to draw up abridged balance sheets, which is permissible under the Fourth Directive *(Common Market Reports, Par. 1391L)*.

What businesses are objecting to most is the plan to subject to the new accounting rules general and limited commercial partnerships and owners of small businesses. About one million businesses would then be covered. Since a commercial balance sheet also forms the basis for the tax balance sheet, and only the latter is covered by the tax secret, it is feared that employees of small limited-liability companies, partnerships, and other small businesses may want to take a look at the commercial balance sheet. Further, if members of the supervisory board are given a copy of the commercial balance sheet, as foreseen by the bill, works council members could demand the same. All of this could have repercussions on labor-management relations.

The government, meanwhile, claims that the proposed extension of EEC accounting standards to partnerships and other small businesses would not mean a significant change because every business is required to maintain proper accounting for tax assessment purposes anyway. More equality in taxation is another reason to make a change, the government says.

Businessmen also criticize the proposed statutory authorization that would empower the government to issue regulations concerning activities (including determination of proper accounting principles) of businesses in a particular branch of industry, businesses operating under a particular legal form, and businesses of a certain size. Observers say there is a danger here that another government administration could change the direction of German accounting rules without having to go to Parliament first.

Ireland: Dublin Worried by Unemployment Situation

For the first time since January 1979, the number of unemployed in Ireland is in excess of 100,000, with 103,150 officially reported out of work at the end of July. This amounts to more than 9% of the country's total workforce and does not even include those working short-time or employees over 65.

The Economic and Social Research Institute has recently stated that unemployment is virtually certain to continue its rise for the rest of the year. Although there was a sharp fall in job availability in existing industry during the first six months of 1980, this was at least partly offset by the creation of new jobs as the result of added investment; however, this is expected to taper off until the end of the year. Surveys carried out by the Institute and the Confederation of Irish Industry (CII) showed a definite downturn in industrial activity in June, marked by weakened demand and a considerable decrease in output, thus clearly indicating the impact of recession.

The figures are of particularly serious concern for the Irish government, which is attempting to negotiate a new national understanding with the trade unions. An essential element in the proposed agreement would be the creation of 22,000 new jobs, but such a target seems increasingly unlikely, according to most experts. The Economic Institute says that high economic growth would be required to produce this number of jobs. Wage rates could be altered, but that would take a very long time to have any effect on employment levels. The only alternative would be to create more jobs in the public sector.

In the view of the Confederation of Irish Industry, government spending is already too high. Instead, the CII wants a cut in the level of current spending to one-third of GNP. It also advocates a radical change from direct to indirect taxation over the next five years in order to provide incentives. Proposed is a cut of almost one-third in income tax, which would involve a revenue loss of some Ŀ275 million, while social insurance contributions of both employers and employees should be reduced by Ŀ135 million. This would require an equivalent annual increase in indirect taxation of some Ŀ400 million, mainly through higher value-added tax and excise duties. The CII estimates that this would result in a yearly consumer price index boost of only 1.5%. However, it stresses that such a changeover to indirect taxation could only be effected if the trade unions first agree not to ask for compensatory wage increases, otherwise inflation would be stimulated, as has happened in the U.K. Social insurance contributions in Ireland currently amount to 12.3% of tax revenues, and it is proposed to reduce this rate to 8% by 1985.

Italy: Large Subsidies for Ailing Industries

The Italian Senate last month approved a program of 1,500 billion lire (about $1.79 billion) to subsidize ailing industries over the next three years. The financial community speculated that most of these funds would be made available to the automobile sector, specifically Fiat which accounts for 80% of Italy's car production. The financial aid plan was to be presented to the Assembly late last month, together with the government's severely modified economic austerity package.

At the same time, an Industry Ministry commission in Rome is working on a restructuring plan for the crisis-shaken automotive sector, which is Italy's largest exporter and a key factor in any economic recovery. Within the framework of the plan, the government also hopes to clarify the situation concerning the controversial contract between state-owned Alfa Romeo and Japan's Nissan. The two car manufacturers intend to establish a joint venture for the production near Naples of 60,000 passenger units annually, of which half would be for export. A chief opponent of this project is Fiat, which is fearing for its own slumping export markets and which has prepared an alternative proposal of its own. The Turin-based concern reportedly is trying to put together a 1,000 billion-lire capital restructuring program with a bank consortium.

France: Worsening Trade, Employment Problems

The continued deterioration of France's balance of payments situation signals both a slackening of export activity and a growing penetration of the domestic market by imports. The adjusted trade deficit is now expected to reach FF 50 billion this year, a fivefold increase over the 1979 figure. Particularly heavy deficits in May and July of FF 7.2 and 6.67 billion, respectively, have helped to push the shortfall to FF 36.5 billion so far this year, already dwarfing the FF 22-billion deficit recorded in 1976 in the wake of the first oil crisis. The 1980 current-account deficit is expected to be about FF 25 billion - FF 3 billion more than the government predicted earlier in the year and a massive deterioration from the FF 6-billion current-account surplus of 1979.

In an explanation of the worsening situation, Paris has pointed out that July's energy bill was double that for July 1979. However, the figures also show sharp rises in imports of both capital and consumer goods, offsetting French export successes in the farming and auto sectors. There is an especially rapidly growing trade deficit with advanced industrial economies such as the U.S. and West Germany. This is partly the result of the current investment boom, which has pushed up imports of investment goods by 26% in the first seven months of this year. However, exports are in no way keeping pace with the growth of imports. From June to July, non-energy imports grew by 4.4%, while exports rose by only 0.5%.

The slack in the economy is partly reflected in growing jobless figures. Seasonally adjusted unemployment reached 1.47 million in June, a 0.7% rise over May. There have been increases in the number of unemployed in eight of the nine months since last November, and this fall 800,000 young workers are entering the labor market for the first time.

Netherlands: Renegotiation of Gas Export Prices

The largest German customer for Dutch exports of natural gas, Ruhrgas, has conceded a substantial renegotiation of the price it pays for 6 million cubic meters of gas per year. This follows strenuous efforts by the Dutch government, which owns over 50% of the national gas sales and distribution organization Nederlandse Gasunie, to persuade all its customers to accept a new basis for pricing gas exports. Economics Minister Gys van Aardenne has made two trips abroad this year to put pressure on the governments of the importing nations. While Ruhrgas is a private-sector importer, the Dutch nevertheless hope that this first success will be followed by concessions from other importers. Thirteen contracts remain to be renegotiated - nine with German importers and four with state-controlled gas companies in Italy, France, Belgium, and Switzerland.

Dutch gas export contracts were negotiated during the 1960s, when it seemed that rapid development of nuclear power would quickly leave the Netherlands with unsalable reserves on its hands. After two oil crises, however, the price Holland obtains for its gas has been left further and further behind the oil price level. Although the export price is generally linked to the European spot market price for low-sulfur crude oil, the contracts specify an indexing ratio of 60-90% and a delay of 6-11 months. The Hague's aim is to renegotiate export contracts covering 550 billion cubic meters of gas in the next decades, specifying a 100% indexing ratio and eliminating the delay. Prime Minister Andries van Agt has stated that if all the contracts were renegotiated on the same basis as the Ruhrgas contract, the Netherlands would earn an extra 1.5-2 billion guilders in 1981. If prices were adjusted to current world oil prices, the figure would be 4 billion guilders.

Gas production is expected to generate 3.78 billion guilders of corporate tax revenues and 8.47 billion guilders of nontax revenues for the Dutch treasury this year. The balance of payments effect of gas revenues is estimated to reach about 20 billion guilders this year, consisting of 10.9 billion guilders in import substitution and 9.1 billion guilders in revenues. The Netherlands supplied 40% of Western Europe's gas needs last year by exporting 49.2 billion cubic meters, compared with 44 billion produced for domestic use. Germany, the largest foreign customer, took 19.9 billion, France 11 billion, Belgium 10.4 billion, and Italy and Switzerland a combined 7.9 billion.

Austria: Tighter Rules for Limited-Liability Companies

A broader capital base for companies, improved protection for creditors, and tightened disclosure requirements for larger firms are among the key features of new legislation governing limited-liability companies *(GmbHs)* in Austria *(Doing Business in Europe, Par. 20,775)*. To take effect at the beginning of next year, the new law amends the existing GmbH law dating from 1906.

So far the establishment of an Austrian limited-liability company has been relatively "inexpensive": of the minimum equity capital of 100,000 schillings, only 25% in cash had to be paid in. These low contributions not only tended to bring on premature insolvency situations but also often left creditors empty-handed, since the liability of a GmbH extends only to the company's assets and not to those of its partners. Under the new law, the minimum equity capital is raised to 500,000 schillings, of which at least 50% has to be paid in at the time of the company's establishment, if the contribution is in cash.

For existing GmbHs with a capital of less than 500,000 schillings, a transitional period of five years is being allowed. The increase in both the minimum capital and the paid-in portion must be completed by Dec. 31, 1986. A GmbH would be dissolved should this deadline and a possible additional grace period be missed. Within the five-year period, a GmbH may be transformed into another business form without tax consequences if the partners/shareholders cannot or do not want to raise the minimum capital.

Another aspect of the GmbH legislation is the modified inclusion in the law of stock corporation rules pertaining to reporting requirements. GmbHs operating with a supervisory board, whether on an obligatory or contractual basis, will be subject to virtually the same rules as stock corporations with regard to the presentation and contents of annual reports. Furthermore, GmbHs with obligatory supervisory boards also will have to abide by stock corporation rules governing the formation of reserves as well as the auditing and publication of annual reports. To satisfy the legal publication requirements, it will suffice to file the report with the Commercial Register and include a notice of the filing in the official journal, "Wiener Zeitung."

The election of a supervisory board will be mandatory for GmbHs with more than 50 shareholders and equity capital of more than 1 million schillings. Contrary to stock corporation law, GmbH law places no ceiling on the number of supervisory board members designated by the shareholders.

Norway: Settlement Ends Month-Long Oil Strike

The month-long strike of more than 1,500 workers on Norwegian oil drilling rigs has ended with a settlement providing for a new collective agreement and pay increases between 23% and 30%. Originally, the drilling workers had demanded pay improvements between 40% and 60%, while the employers had offered 10.3%.

Common Market Reports

EUROMARKET NEWS

Issue No. 608 · *September 9, 1980*

IN THIS ISSUE

Community: Public Contract Rules Adapted to GATT Code

The European Economic Community has adapted its 1977 directive on the award of public supply contracts to the standards agreed to under the last GATT negotiations wound up in Geneva in April 1979 (Official Journal, No. L 215; Aug. 18, 1980; page 1). These standards are set forth in a specific agreement on government procurement (GATT code), the purpose of which is to force repeal of legislation or eliminate administrative practices of the contracting country's authorities that usually favor domestic suppliers in awarding public supply contracts. In intra-EEC trade, discrimination in awarding government contracts was banned by Council directive 77/62/EEC, which coordinated the national award procedures in order to achieve equal conditions of competition for such contracts in all Member States *(Common Market Reports, Par. 9936)*.

Adaptation of the existing directive to the requirements of the GATT code (the Member States must comply with the amended directive by Jan. 1, 1981) has legal connotations in that GATT's scope of application has been extended into an area of trade that previously was expressly exempt. Several provisions of the code introduce more favorable conditions for tenderers than those laid down in Directive 77/62/EEC. Far more important, however, are the economic connotations: the code enables EEC-

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based manufacturers to gain access to important markets outside the Common Market. On the other hand, it also opens the Common Market to bidders from third countries, and their bids are expected to stimulate competition, which will be to the advantage of the awarding authorities in the EEC Member States.

The fear of a potential threat from third-country bidders has been indirectly confirmed by a Council resolution adopted on the same day as the amended directive and published one day thereafter (Official Journal No. C 211; Aug. 19, 1980; page 2). This resolution concerning access to Community public supply contracts for products originating in third countries shows the handwriting of protectionist governments in the Council that are worrying about the prospect of increased competition for their domestic industries. In the resolution, emphasis is placed on the need for the Community to establish the conditions under which public supply contracts awarded by Member State authorities are to be opened to products from third countries. The necessity to achieve a satisfactory degree of reciprocity with GATT-signatory third countries and nonsignatory countries is also stressed. An express reference is made to Treaty Article 115, which allows the Commission to authorize a Member State to take necessary protective measures in order to avoid deflection of trade *(Common Market Reports, Par. 3889)*.

In a statement concerning Treaty Article 115, published simultaneously with the Council resolution, the Commission has moved on its own to forestall a proliferation of applications for protective measures. The EC executive is prepared to authorize national measures only to the extent that they do not entail any controls or any form of barrier within the Community. Nor will the Commission allow measures that would affect the level of liberalization reached at Community or national level. In order to discourage requests for authorization of protective measures, the Commission will demand extensive information from the applying Member State government about how it awards public contracts, the products involved, and why third-country products should be excluded in awarding a contract.

Debate over High Cost of Commercial Flying Goes On

The Commission is still seeking solutions to the problem of air fares in Europe, but it seems doubtful that it will be able to come up with specific proposals in 1980, as the Council of Ministers requested. The problem is not a new one for the EC executive: in July 1979 it sent a memorandum on air transport to the Council, the European Parliament, and the Economic and Social Committee; the memorandum received high marks from the EP but not from the Council. In it the Commission set out a number of general objectives to be achieved, especially improvement in the market structure, and suggested several short- and medium-term measures. Among the specific objectives would be to promote the development of effecient air travel service at the lowest possible fares.

In the last two years there has been increasing criticism about prices of normal air fares of intra-European air services. After the general public begain airing its dissatisfaction, international organizations, including the Council of Europe and the EP, joined the ranks of critics. In its memorandum the Commission analyzed the charges and concluded that the general criticism, which was not always well founded, frequently failed to take into consideration the special factors which apply to the operation of air services within Europe. For example, a fair comparison between the high tourist-class fares in Europe and the relatively low U.S. domestic fares is not possible because operational costs of European air services are much higher than those in the United States. Executives of European airlines point out that several other factors are also to blame for the high prices of flight tickets in Europe; they include financial losses arising from interline arrangements and high air traffic control costs that are outside the airlines' sphere of influence. The costs created by customs and immigration formalities, that airlines must partially share, are also not experienced in the U.S. and other parts of the world, according to the executives.

It is largely due to the British government's persistence that the debate on the propriety of high European air fares has been kept alive in the Council and national capitals. In the U.K.'s opinion there is substantial evidence that even after taking into consideration all factors, some intra-European air fares, especially economy fares, are higher that can be justified in relation to the cost of efficient airline operation, the public good, and consumers' interests. According to London, the difference between intra-European tourist-class fares and the prices charged for tickets on other routes is so great that it cannot be explained simply by pointing to the cost of air traffic control and customs and immigration factors. London says the high prices of intra-European fares has an inhibiting effect not only on the ordinary tourist but also on businessmen since traveling expenses are reflected in the price of goods produced within the EEC.

The British government has therefore presented several proposals to the Council for action on air fares in Europe, among them ways of improving European airlines' efficiency. The Permanent Representatives have been studying the proposals but have not reached any conclusions yet. Many observers in Brussels believe they never will because virtually all major airlines are owned by the respective Member States, and running them and keeping them alive has become a question of national prestige for most governments. But others hope that the skyrocketing prices for jet fuel will eventually produce some results in the direction of making European airlines more efficient.

In Brief...

The European Court of Justice will soon decide whether Member State nationals may import certain quantities of butter, alcoholic beverages, and cigarettes duty-free that they have purchased on ships that briefly leave territorial waters and then return to the harbor (so-called "butter junkets"). A large northern German retail organization and several individual wholesalers and retailers brought suit against the main customs office in Kiel asking the tax court to enjoin customs from letting buyers leave the ships without assessment. Plaintiffs contend that the practice discriminates against shipping lines, distorts competition, and violates the common customs tariff. The tax court has submitted several questions to the Court of Justice that concern the interpretation of several Council regulations (Case No. 158/80) + + + France has adapted its investment control rules to Community law so that investors from other Member States no longer have to go through an authorization procedure when they want to invest *(Doing Business in Europe, Pars. 22,654, 22,673)*. Thus individuals and companies from elsewhere in the Common Market may establish branches and subsidiaries, may buy into existing commercial entities, and may lend to borrowers in France without asking permission *(Journal Officiel, Aug. 4 and 5, 1980)*. (Investors established outside the EEC who want to invest, including acquiring an equity interest exceeding 20% of the entity's stock, still need authorization from the French government to do so.) The Commission, which did not take France before the Court of Justice for violating Community law, is still not entirely satisfied: under a vague clause of the decree changing the law, the French government retains the power to bar an investment if it is directed "into fields that touch on the state's authority."

Germany: Change in Law Favored in Mannesmann Case

It now seems certain that the dispute between Mannesmann Corp. and the unions over retention of labor's codetermination rights granted under the 1951 statute will be settled by the new Bundestag that will emerge from the Oct. 5 national elections. This conclusion was drawn after both sides failed to reach a negotiated settlement and indicated they would welcome legislation. Leading Social Democrats who wanted legislation all along had even prepared a bill; they reportedly toyed with the idea of calling the outgoing Bundestag back to a special legislative session. Members of the Opposition have also come around to favoring the legislative approach; their concept is to lower to 30% the existing 50% criteria provided for in 1956 amendments to the 1951 statute: any holding company controlling other companies would remain covered by codetermination legislation even if coal mining and steel production accounts for only 30% of the entire range of industrial activities.

The 1951 statute provides for codetermination rights of labor in coal mines and steel production companies. These rights are for the most part exercised via the supervisory board, composed of an equal number of shareholders and labor representatives plus a neutral person who serves as chairman. The plan of the Mannesmann Corp., a holding company, to lease the subsidiary Hüttenwerke AG to its Mannesmann Röhren-Werke for economic reasons (elimination of about 350 jobs and annual savings of some DM 50 million) would have the legal consequence that the Mannesmann holding would no longer be subject to the 1951 statute and the 1956 amendments but would be covered by the less extensive 1976 Co-Determination Law *(Doing Business in Europe, Pars. 23,222A, 23,222C, 23,441).*

Either Parent Could Take Leave to Care for New Baby

If the Schmidt administration is returned to power in the Oct. 5 national elections, there are plans for a lot of new legislation in a number of areas. One of the measures reportedly would entitle either parent to take a one year leave of absence from the job after the birth of a baby. The parent who takes the unpaid leave to care for the child would have an enforceable claim against the employer for reinstatement.

Government officials say that experience with recent labor legislation encouraged them to continue chiseling on the roughly shaped sculpture. Since July 1, 1979, every working woman is entitled to six months' maternity leave after giving birth. During that period and for two months thereafter she may not be fired. Even under prior law, employed mothers were already freed from work six weeks before and eight weeks after giving birth, and they could not be given notice in the four months following delivery. Under the 1979 legislation the mother receives up to DM 750 tax-free each month during the maternity leave; she remains covered by social security (the government pays the contributions), and she retains her job *(Doing Business in Europe, Par. 23,433C).*

According to government statistics, around 90% of all new mothers in employment took advantage of the additional four months' leave: while during the second half of 1979 only 36,600 women invoked this right, in the first quarter of 1980 around 60,000 did. Virtually all new working mothers in the low- and medium-income brackets took advantage of the longer leave; about 70% of new mothers earning high incomes took the full six months. The government estimates that the maternity leave plan as it stands now is going to cost about DM 700 million each year.

Introduction of the 1979 measure was accompanied by considerable criticism from business executives and employer associations that has subsided in the meantime. The government's basic objective of enabling a new mother to spend more time with her baby without having to worry about her job and lost earnings has had a side effect that was not openly pursued but secretly hoped for: more babies were born in the first half of 1980 than in the corresponding period for many previous years. In recent years the birth rate declined so sharply (Germany has the lowest birth rate in the world, according to UN statistics) that the possibility of Germany being a dying nation had entered public debates on various subjects. There have been particularly weighty discussions about the effect of a declining population on the social security system.

France: Draft Budget Shows Fiscal Restraints

After nearly six months' work government officials have completed the draft budget for fiscal 1981 that calls for roughly FF 610 billion in expenditures and some FF 580 billion revenue. There may be some minor changes in individual budget items before the Barre administration presents the proposal to the National Assembly at the beginning of October.

With the anticipated FF 30 billion deficit France would continue on its course of a modestly restrictive fiscal policy and retain its role as a model for other industrialized countries that Prime Minister Raymond Barre wants France to be. There are no plans to stimulate the sluggish economy through deficit spending. On the contrary, the credits requested by most ministries have been cut except those sought by the interior, defense, and research departments. While in 1979 some 23,000 people were put on the government's payroll, the funds proposed in the 1981 draft budget would allow hiring only about 2,000 civil servants and other government employees.

French officials admit that the preparation of the draft budget was largely dictated by the prospect of next year's presidential elections. Individual taxpayers need not worry about higher income tax in the near future since increased social security contributions and income tax law amendments affecting individuals in the high income brackets in 1980 have already cost the government a lot of support in the electorate. But the oil companies, some of which allegedly made astronomical profits in 1979, would be required to pay higher corporate income tax; observers say this would not anger voters but would take some wind out of the campaign sails of the Communists, the most vehement opponents to a reelection of President Valéry Giscard d'Estaing.

Important for businesses would be the planned reform of investment incentives. Current law allows a small or medium-sized business established between June 1, 1977, and Dec. 31, 1980, to reduce taxable profits by one-third annually in the five years following establishment *(Doing Business in Europe, Par. 22,914A)*. This law expires at the end of the year, as does special legislation enacted in 1979 that allows a deduction of 10% of investment cost from taxable income for fiscal 1979 and 1980. The significance of the latter incentive is that it is available to all companies subject to corporation income tax. However, application of detailed rules on computation of the deduction has turned out to be so cumbersome in practice that its impact in terms of stimulating investment has been small *(Doing Business in Europe, Par. 40,008)*. Government leaders promised enactment of simpler rules for next year, but no details have yet been revealed.

Sweden: More Taxes to Slow Down Alcohol Consumption

At the start of a two-week special session, Sweden's Riksdag has approved higher taxes on alcoholic beverages and tobacco. This is but a small part of various proposed measures, including an increase of the value-added tax rate to more than 23%, with which the Conservative coalition government hopes for additional revenues of SKr 6.9 billion. Other tax and levy increases are proposed for gasoline, heating fuels, and charter travel, but these items were to be dealt with later in the session.

The least controversial of the parliamentary actions so far was the boost in alcohol taxes, which in Sweden has come to be a standard practice, year after year. The measure was also supported by the opposition Social Democrats, while the Communists rejected it only because the SKr 1.2 billion in expected extra revenues will not be used for the treatment and rehabilitation of alcoholics but will flow directly to the treasury.

The alcohol tax increase now approved averages 16%, which means that a bottle of standard brand Scotch whisky now retails for the equivalent of $28, a bottle of low-grade vermouth for $7, and a can of beer for $1.60. There is no price competition on the retail market because of the state's monopoly in this sector. (The state liquor stores were closed two days before the parliamentary vote in order to prevent hoarding.)

Whatever their ideologies, the political parties in Sweden are generally unanimous in their support of the official anti-alcohol drive and the government's reliance on exorbitant taxation in that respect. The determination "to sober up" the nation is not diminished by the fact that the high price of drinking has caused per-capita consumption of alcoholic beverages to drop to 5.8 liters a year, which is less than half that of West Germany (12.4 liters).

Most recently there has been a campaign against putting into service two large ferry boats between Stockholm and Helsinki, Finland, because passengers would be served duty-free alcohol on board. Noting that the pier facilities at Stockholm harbor will have to be expanded to accommodate the two ships, an official spokesman raised the rhetorical question of whether tax money should be spent so that the travellers "can drink even more."

Greece: Broad Investment Incentive Bill Proposed

The Greek government has submitted a bill to Parliament that would offer broad incentives for investments in the country's less industrially developed regions. There would also be incentives to invest for other purposes such as pollution control and energy conservation. These incentives would go far beyond those existing under present legislation *(Doing Business in Europe, Par. 24,401)*.

Under the bill, the various regions of the country would be given the designation C, B, or A depending on the state of industrial development. C would stand for underdeveloped, B for modestly developed, and A for developed. A business or an individual investing in a C area could count on a government grant of 40-50% of the overall costs of investment. Investments in B areas would qualify for grants of 20-30%. There would be no incentives to invest in the country's A regions. Since the government wants to attract more foreign tourists for balance of payments reasons, investors who build new hotels could receive 30-50% of the cost of investment. The government would give them 10% more if the investment is located in a district of a particular C or B region that the central bank had chosen as especially suited for new enterprises.

There would be additional grants to offset the costs incurred by investing either to protect the environment, to conserve energy, or to stimulate R&D efforts; here the grants would be 40% of the amount invested. A company that relocates its production facilities from an industrialized A area to a C area would be entitled to financial assistance amounting to 50% of the cost of relocation; 30% of the costs would be reimbursed if a business moves its plant located in a B area to a place in a C area.

Investors would be allowed to write off the cost of new machines at rates that would be 25-100% higher than the ordinary depreciation rates applicable under present law *(Doing Business in Europe, Par. 24,338)*. Investors could also expect government subsidies to offset the cost of borrowing. Under the bill, the government would pay 30-50% of the interest that the investor has to pay for a bank loan.

Common Market Reports

EUROMARKET NEWS

Issue No. 610 *September 23, 1980*

IN THIS ISSUE

Community: More Powers to Bar Shipyard Aid Sought

The Commission has proposed to the Council of Ministers a new draft directive on aid to shipyards that would replace the current measure, the fourth directive, which expires at the end of the year. Like its forerunners, the fifth draft directive is also conceived to align national aid measures to shipyards and to prevent ruinous competition among shipbuilders in the Member States. Production aid would be permissible only if it is aimed at restructuring shipyards. But the proposal also contains new elements to tighten up enforcement of EEC competition rules. If the Council approves the fifth draft, the Commission would retain the power of approval over production aids to loss-making shipyards, but - and this is new - it could also veto plans that encourage investors to place new orders. Under the current measure, the Member State governments are obliged to report their projects that encourage the placement of orders, and the Commission may merely check to determine whether a national government has encouraged orders with domestic shipyards only, which is contrary to the EEC Treaty *(Common Market Reports, Par. 2922.27)*.

One novelty in the fifth draft is that compensation to shipyards that are losing money would also come under the Commission's scrutiny. Commission attorneys justify the proposed expansion of the Commission's powers to control state aid with

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the argument that if the EC executive is already entitled to decide how much state aid may be granted on the basis of market conditions, it must also be in a position to reflect the impact of losses subsidized by the government on orders and restructuring programs.

All Member State governments, except that of Italy, have indicated in exploratory talks that preceded and accompanied the drafting of the measure that they are preparing to grant the Commission the additional powers it is seeking.

Shipbuilders in the EEC, lured to expand their capacity by the boom of the 1960s and early '70s, have in recent years felt the effects of the worldwide decline in demand for new ships, especially oil tankers. Common Market shipyards have also faced increased competition, mainly from Japan and South Korea. Several events that took place in 1979, especially the 20% devaluation of the Japanese yen and the revaluation of most European currencies, have worsened the situation of Common Market shipyards to such an extent that, at the beginning of 1980, Japanese production costs were 22-55% lower than in the Community, depending on the State and the type of ship. In a recently published report the Commission stresses once again that aid just to put shipyards back on their feet will not do the job. The "scrap and build" program, which calls for scrapping 2 million tons and building 1 million in their place, is still worthy of enactment, according to the report. The program would guarantee employment for 35,000-44,000 workers in shipyards and elsewhere; the "scrap and build" proposal is pending before the Council of Ministers.

New Hope for European Export Bank

The Commission's 1976 proposal for the establishment of a European Export Bank that has been lying in the Council's "no action" file for several years may be heading for revival. The features of the proposal have again been reviewed at Community headquarters and in the national capitals now that Community and Member State officials are looking for ways to promote exports of products from the Common Market throughout the world. Commission officials believe, for example, that in the automobile sector a common effort would help hard-pressed European manufacturers and at the same time meet the challenge brought on by the Japanese car sales offensive.

The main function of the proposed European Export Bank (EEB) would be to help businesses established in several Member States with financing of exports of goods and services. With an initial capital of 100 million units of account, the EEB is supposed to fill a gap in Community financing and could help reduce differences in national export credit insurance practices. Although the proposal was strongly backed by the European Parliament and the Economic and Social Committee and was unequivocally welcomed by Denmark, the Benelux countries, and Italy, this was not enough support to put the measure into the Council's legislative machinery. Germany and France maintained a negative attitude about the EEB all along, and the British and Irish governments had some reservations. What blocked any further progress was the position of German and French industry executives and bankers who saw no urgency in setting up the EEB. Their main argument was that multinational contracts, few in number, do not present financial problems that cannot be solved by existing financial facilities.

Commission officials noticed a gradual change in attitude among opponents that boils down to: let's at least discuss the proposal; there may be more to it now than several years ago. Now that there are far more individual businesses and branches of industry in trouble that could be helped to export more with EEB credits and export insurance, Commission officials believe that even Bonn might support the idea of a Community export financing instrument. The alternative would be protectionist measures, which the German government opposes. An initial 100 million UA capital for the EEB may not be much, but a capital increase could be obtained by borrowing on national and international financial markets. The Community would guarantee borrowings up to a ceiling yet to be established.

About a year ago bankers, members of the European Parliament, and officials of several Member State governments suggested the creation of a special export financing division with the European Investment Bank as an alternative to the EEB concept. At first Commission officials welcomed the suggestion and even toyed with the idea of turning it into a formal proposal, but later so many legal and financial problems arose that the idea was dropped.

In Brief...

The Commission has proposed a provisional antidumping duty on certain polyester yarns imported from the United States. The duty, 9.6% for textured yarn and 15.6% for nontextured yarn, became applicable on Sept. 2; it remains in effect for four months but may be turned into a definitive duty by the Council from that day on or even earlier. Those U.S. manufacturers affected by the measure may ask for a hearing at Commission headquarters within one month (Official Journal No. L 231, Sept. 2, 1980, page 5). Investigations carried out by the EC executive revealed that U.S. polyester yarn imports rose from 9,800 tons in 1978 to 27,800 tons in 1979, thus increasing the American market share in the EEC from 4% to 10%. Some of the products were sold up to 20% below those prices demanded for yarn made in other countries, and as a result many Common Market-based manufacturers had to introduce short work weeks or lay off employees + + + The Commission's products liability draft directive has run into opposition from the very day it was presented in 1976, but the phalanx of attackers was considerably strengthened when the European Parliament called on the Commission to withdraw the measure. Even some Commission attorneys are now having second thoughts about the strict content of some of the individual provisions. A major point of criticism is aimed at the proposed consequences of development risk: the manufacturer would remain liable for injury even if his product conformed to the standards of science and technology at the time it was put on the market. Industry throughout the Common Market is against this extended risk, but the national consumer organizations and their Brussels-based umbrella organization are in favor; they are the sole supporters of the Commission proposal *(Common Market Reports, Pars. 9891, 10,167).*

France: Incentives to Boost Investments

The government will soon propose legislation that would entitle all companies subject to corporation income tax to deduct from taxable income an amount equal to 10% of the cost of their annual investments. This measure, announced on Sept. 10 when the draft budget for fiscal 1981 was presented, would take effect retroactively as of Oct.1 and would remain in force for five years. Experts estimate that the measure will cost the treasury some FF 5 billion annually, or FF 25 billion by the end of 1985.

The proposed incentives would be broader than those offered under existing legislation. Even more important, the new rules based on the 10% criterion would be much easier to apply. Experts believe there would be far fewer disagreements between companies and the tax authorities than occurred when applying the present incentive rules *(Doing Business in Europe, Par. 22,914A).*

The future investment incentives would come on top of the FF 1 billion program announced in late August to stimulate the sales of export-oriented industries. Furthermore, the government has set aside in the draft budget FF 6.5 billion for a special economic development fund; if the draft budget is approved, the fund could be tapped if the flagging economy takes a turn for the worse and needs a large infusion of money.

Bankruptcy Law Change Protects Sellers

Businesses exporting to France and foreign subsidiaries operating there should welcome the news of a change in French legislation that in the case of bankruptcies and insolvencies protects a seller's ownership rights to goods delivered but not yet paid for (Law No. 80-335, *Journal Officiel,* May 13, 1980). This protection has been lacking in the past, and thus foreign exporters often incurred considerable risks, given the fact that the number of bankruptcies in France has been climbing to 13,000-14,000 annually in recent years. Even protective clauses in the sales or export contracts or individual agreements offered no guarantee in reserving the ownership rights for the creditor.

The legislative changes involve a modification of Articles 65 and 59 of the Bankruptcy Law. Under the amendments, the seller may demand after the opening of formal bankruptcy or judicial settlement proceedings that his goods be separated from other remaining assets, provided he had specified that title to the goods would remain with him until full payment was made (Article 65). To be legally binding, this clause must exist in writing at the time delivery is made. The seller must make his demand within four months after proceedings are opened (Article 59). Also, both seller and buyer must identify the goods involved under a separate heading in their respective balance sheets.

The concept of the seller's reserving title to the goods has been a familiar one in France in the past, but it has not been legally enforceable. Because the concept did not have any bearing on bankruptcy proceedings, its usefulness as a credit guarantee was insignificant. This deficiency was recognized as far back as 1934 by the Court of Cassation, which in two separate cases ruled then that a seller could reclaim his goods only until the opening of bankruptcy or judicial settlement proceedings.

In leading up to the new legislation this year, the French National Assembly initially had considered proposals advocating a change in the transfer-of-ownership rules of the Civil Code (Article 1583). In French law, the ownership transfer takes effect as soon as seller and buyer agree on the object of the sale and the sales price; delivery and payment are deemed secondary factors in this respect. A change in Article 1583 would have made the ownership transfer complete only upon full payment. However, the legislators eventually decided against such a radical step, and a Senate initiative then resulted in the adopted modifications, which are confined to the bankruptcy law.

The Barre administration expects the new law to result in a dual benefit by (1) improving the legal position and credit standing of the seller and (2) leading to better business conduct and strengthened international competitiveness. Also, there are hopes that it will help in reducing the number of bankruptcies: by being able to reserve title to the goods, the seller should be more inclined to give credit to customers who are financially unstable and for whom a delivery stop could be economically fatal.

While recognizing the positive features of the new law, critics nevertheless point to many shortcomings, especially with respect to categories of goods that cannot be reclaimed - for instance, processed materials. Questions also remain on whether retained ownership rights can be transferred to banks as collateral for credits taken out by the seller.

Germany: Move to Reduce Noise of Machines and Tools

The government has proposed regulations that would require machine and tool manufacturers to indicate by label the maximum noise levels that their equipment could reach during operation in factories. With this draft regulation the government wants to move on in its drive to control the most frequent vocational disease among workers: loss of hearing due to excessive noise emanating from machines they operate or tools they handle on the job. It is no secret, however, that the risk of injury to the inner ear would be considerably lower if all workers took management's advice and wore protective earmuffs or earplugs supplied by the employer.

Although the proposed regulations would also apply to manufacturers of household products and sports equipment, the main thrust of the measure is to reduce noise in factories and offices. Government officials believe that the proposed noise labeling requirement would enable buyers to determine quickly which machine or tool makes the least noise. This would stimulate competition among manufacturers to apply the latest noise abatement techniques when designing their products. Manufacturers would even be induced to increase their R&D efforts in noise abatement in order to have an edge over their competitors, the officials believe.

The government is empowered by the Machine and Tool Safety Act to propose the regulations. Assuming the upper house of Parliament approves, the government could decree noise limits on any machine; in fact, the government is even proposing maximum noise levels for machines used in the metalworking and furniture industries. Once the measure is approved, manufacturers could sell machines such as lathes, grinders, drill presses (and import them) only if they do not exceed the proposed noise levels during proper use. The limits, expressed in decibels, are based on results obtained through research by private and university institutes that has been going on for almost two decades and was supported by government grants.

Double-Checking of Heating Units to Remain

The government has rejected all speculation about a possible letup in the double controls of heating units in private homes, plants, and offices. Thousands of homeowners throughout the country have been complaining to members of Parliament representing their districts or have sent letters directly to government offices in the capital. They do not see why they should pay twice: once to the heating company that services the heating unit as required by the law on pollution control and energy conservation, and a second time to the chimney sweep who checks four times a year whether the heating company did the proper servicing and maintenance job, especially whether the burner was cleaned and adjusted properly to keep pollution below the statutory levels and to conserve heating oil. Government officials say the double-checking is necessary *(Doing Business in Europe, Pars. 23,544A, 23,550D)*.

Many homeowners who refused to pay for the chimney sweep's check found themselves in court and lost. Chimney sweeps have been entrusted by the law with controlling heating units everywhere; although businesses may write off the fee as an operational expense, homeowners may not. Chimney sweeps have always had a monopoly in cleaning chimneys, and they managed to expand it in 1974 when the law entrusted them with checking units to see that no energy is being wasted due to an improperly adjusted burner; since 1978 they also control heating units for pollution control purposes. In this context, the government's original proposal would have allowed commercial firms to do the checking, but the chimney sweep lobby in Bonn was successful with its efforts to block the provision. The chimney sweeps maintained that a firm doing the maintenance should not also be allowed to check whether the job was carried out in line with the law. As of January 1, 1981, the chimney sweeps will have an additional task: they will be checking to see that the emission of exhaust from gas-fed heating units stays below the limits established in regulations.

Denmark: State Urged to Become Active as Entrepreneur

The governing Social Democrats want the government to become active as an entrepreneur. Their desire is dictated not so much by ideological as by pragmatic reasons. The country's balance of payments has been in the red since 1964, and all efforts to keep public spending under control and to improve the competitive standing of Danish industry on foreign markets by devaluing the krone several times in the past decade have had only partial success. Theoretically, the situation would change if the government itself ventured into fields of economic activities that private businesses do not touch because of slim profit prospects in the short run that nevertheless offer good chances in the long run.

Recycling is a sector where engineers, chemists, and other scientists could be put to work to develop new techniques for recycling waste matter, according to leading Social Democrats. The know-how and perhaps even production facilites could be exported, they say. At the moment the Social Democrats have little chance of realizing their plan in Parliament, according to observers, because they lack a majority.

The Social Democrats point out that, in contrast to other countries such as Italy, France, and Sweden, Denmark has no state-owned enterprises engaging in industrial activities and competing with privately-owned businesses. Although this means that the government does not have to pump tax money into ailing state-owned companies or have to go to the rescue of faltering public enterprises, at the same time the government deprives itself of a potential for economic development. Taking an active role in the business sector would help reduce and eventually eliminate the balance of payments deficit, the Social Democrats believe, because management of private businesses will not venture into fields with only a long-range potential for increased exports, which alone could make a considerable dent in reducing the deficit.

Austria: Surcharge on Price for Tapes and Cassettes

Parliament has passed a law that will require consumers to pay a surcharge as of January 1, 1981, when they buy tapes or tape cassettes, and after July 1, 1982, there will also be a surcharge on video cassettes. Just how high the surcharges will be is not known because the organization representing copyright holders (composers, musicians, and artists) and executives of the national retailers' organization are still negotiating. If the two sides fail to reach a compromise by November, they would have to put the matter before a mediation board, which would then decree a settlement.

The discussions on the surcharges have been difficult because the situation is an entirely new one and also because the lawmakers left establishing the actual amount to the two sides; all they said the negotiators should take into account is the length of the tape or cassette. Most countries still lack legislation protecting copyright holders in the sale of tapes and cassettes, although some have taken other concrete measures. A case in point is Germany. When the customer buys a tape or video cassette, the price includes a charge to compensate for copyrights held by composers, musicians, or other artists that otherwise would be infringed when taping from records, other tapes, radio and TV broadcasts, or other performances. This charge was negotiated between industry and GEMA *(Gesellschaft für musikalische Aufführungs- und Vervielfältigungsrechte)*.

The EC Commission is favoring an approach that is different from Austria's and Germany's. In its plan for harmonizing national copyright laws it suggested a certain percentage of the purchase price of tape recorders, video recorders, and copying machines as well as tapes, cassettes, and copying paper should be set aside to satisfy copyright claims. Since copying machines are used extensively in libraries, universities, and scientific institutions, the Commission recommends an additional fee on top of the percentage paid at the time of purchase.

Common Market Reports

EUROMARKET NEWS

Issue No. 611 *Report No. 406, October 1, 1980*

IN THIS ISSUE

Community: Commission Upheld on State Aid Issue

The European Court of Justice has upheld the Commission's decision ordering the Dutch government to refrain from granting a 10-million-guilder subsidy for a new Philip Morris cigarette plant and office building. The Court held that aid of 6.2 million guilders at the most could be justified from the aspect of regional development, whereas the full amount would give Philip Morris an unfair edge over its European competitors. Although the judgment does not mean a full victory for the Commission, the Court established an important criterion for state aid practices and the Commission's control function by saying that no grant should be given to companies with substantial international trade because this would give multinationals an unfair export edge and thus distort competition (judgment of Sept. 17, 1980; *Philip Morris Holland v. Commission,* Case No. 730/79).

Dutch Philip Morris wanted to move its plant and offices from Eindhoven to Bergen-op-Zoom. When the Dutch government offered a 10-million-guilder subsidy for the planned 165-million-guilder investment, the Commission objected, saying the relocation would not appreciably reduce unemployment in the Bergen-op-Zoom region. Philip Morris went before the Court of Justice to seek an invalidation of the Commission's negative decision.

This issue is in three parts. This is Part I.

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Commission officials believed only five new jobs would be created; Philip Morris management said the number would be much higher. The Court agreed with the Commission.

Commission attorneys are pleased with the ruling and the guidelines established therein for the EC executive's role as the enforcement agency of EEC competition rules. The judgment sets a precedent for 14 pending cases involving multinational companies which had counted on aid from the Dutch and Belgian governments for various investment projects. Since Treaty Article 93 gives the Commission the power to review all state aids to determine their compatibility with Treaty Article 92, Commission lawyers had been waiting for the outcome of the Philip Morris appeal *(Common Market Reports, Par. 2932)*. The 14 multinationals - among them major U.S. companies such as Exxon, Polaroid, and Rockwell as well as the U.K.'s ICI, Holland's Royal Dutch, and Sweden's Tetra Pak - were also expected to be turned down, but Commission attorneys say the Commission's upcoming decisions must be reviewed in light of the Court's guidelines.

The judgment will help the EC executive in its clampdown on state aid to enterprises. The Commission has been taking a hard line on such aids because it is concerned that high unemployment in the Community (currently around 6.8 million) will induce Member State governments to outbid each other in offering grants to investors, especially multinational companies. Treaty Article 92 bars any type of aid to individual enterprises or branches of industry that distorts or threatens to distort competition and that adversely affects intra-Community trade, but it permits government aid to promote economic development of regions with serious underemployment and a low standard of living or to remedy serious disturbances in a State's economy *(Common Market Reports, Par. 2922)*.

Consumer Credit Draft Remains Controversial

The Commission's consumer credit draft directive remains controversial within the European Parliament, whose opinion on the measure is expected in the second half of October at the earliest. Basically the measure would commit credit institutions to truth in lending and thus would provide borrowers with more protection. The Member States would have to either enact legislation along the lines set out in the measure or amend existing national rules accordingly. Eventually, borrowers would be afforded equal protection throughout the Community. The States would be free to enact or to retain legislation setting forth standards that are stricter than those in the directive *(Common Market Reports, Par. 10,125)*. (Several States have already enacted consumer credit rules; Denmark and the U.K. are considered to have the most advanced laws on the matter.)

The controversy in Parliament and its various committees developed over the necessity, scope, and several details of the draft directive. This forced postponement of the debate on the draft opinion last July. A majority of the EP's legal committee felt that the Commission's proposal would not attain the objective pursued; it was also thought that the measure was not really needed and that it lacked a legal base. Represented mostly by Conservative members of the EP, the majority was of the opinion that the Commission had failed to substantiate that existing national rules were detrimental to the proper functioning of the Common Market *(Common Market Reports, Par. 3302.03)*. It was also believed the proposal would fail to protect credit institutions against distortion of competition and thus hinder progress toward a common credit market because virtually all individual provisions concern protection of borrowers.

There were only two comments on the substance of the proposal, and they also were negative. First, the Commission was criticized for its failure to propose harmonization of the methods applied in computing effective interest rates, although this information would be relevant to the borrower. Secondly, because the measure would allow the States to retain or enact standards higher than those of the directive, new differences among the national rules would be created. (The minority of the legal committee believed the proposal is an adequate means to attain a considerable measure of protection for individual borrowers in the EEC.)

The EP's consumer affairs committee supported the proposal, although with reservations. A majority thought that the proposed provisions concerning the borrower's default in making payments, computation of penalty interest, and the seller's right to demand return of the item purchased on credit do not measure up to expectations in terms of guarantees for the borrower.

Despite the controversy, Commission attorneys expect a favorable opinion on the measure after an extended floor debate. They say that some of the recommendations made by the consumer affairs committee should be considered in an amended proposal. The Economic and Social Committee also engaged in a heated debate and thereafter adopted an opinion, with 69 favoring the proposal, 11 opposing it, and 23 abstaining.

In Brief...

On Sept. 18 Community and Brazilian officials signed a five-year commercial and economic cooperation agreement. The new framework agreement, which will replace the EC-Brazil trade pact in effect since 1974, is designed to encourage the expansion of trade and develop economic cooperation between the partners. Cooperation would take on various forms, including joint ventures and opening up new markets and new raw materials resources, especially in the energy sector + + + The European Patent Office has moved to its permanent headquarters adjacent to the German

Patent Office in Munich. By invoking the services of the EPO, an inventor can obtain protection for his patent in most European countries with one application *(Common Market Reports, Pars. 5501, 5503)*. The EPO has received about 30,000 applications since it opened its temporary headquarters on June 1, 1978. So far 350 patents have been granted; six applications have been rejected. Roughly half of all applications were filed by large enterprises. The chemical sector is leading, accounting for 45% of all applications, followed by engineering (33%) and electronics (22%). Two-thirds of the applications came from inventors established in 11 of the 14 contracting states. Of the remaining applications from noncontracting countries, U.S. inventors have a strong lead over the Japanese.

Britain: Unions Urged to Reject 'Unfair' Employment Act

The annual U.K. Trades Union Congress has overwhelmingly approved a resolution calling on unions to support a policy of outright rejection of the provisions of the Employment Act and on the TUC General Council to mount a "sustained and vigorous campaign of noncooperation with the government - including, if necessary, strike action." All affiliated unions were urged to actively oppose "this unfair and dangerous legislation," and its repeal by the next Labour government was demanded. However, observers believe that the muted response by union members to the TUC's "Day of Action" last May, in protest of government policies, makes any immediate prospect of industrial stoppages unlikely, especially in view of the current recession and high levels of unemployment.

On a more positive note, there was enthusiastic backing for a motion by the National Union of Railwaymen to reduce the number of competing unions within the same industries. The NUR general secretary said there ought to be no more than 20 unions, compared with 109 affiliated with the TUC at present. The blue-collar unions often compete with each other, as do the white-collar unions, which "weakens our power and saps our strength." Each year, it was noted, there are over 100 inter-union disputes, which use up time, energy, and resources.

In the areas of employment and general economic policy, the TUC urged a reduction in working hours and overtime, with an immediate goal of a 35-hour workweek, without loss of pay. Greater regional aid and subsidies should be provided, with a reversal in public expenditure cuts. The introduction of new technology should be controlled, with minimum impact on employment levels, and sufficient funds should be made available to develop microelectronics and other new technologies. An effective price commission should be restored, and there should be strict monitoring of import penetration. Finally, the government should take action to cut interest rates and achieve a more competitive exchange rate. (It is perhaps significant that these last two demands have lately been echoed by the Confederation of British Industry, for the employers, who have urged the government to take immediate action "to alleviate the plight" of manufacturing industry.)

At the congress the TUC was authorized to try to formulate an incomes policy with the Labour Party, with a view to the next general election, after Opposition leader and ex-premier James Callaghan had offered the TUC a "new partnership." Callaghan stressed, however, that such a partnership would not work without the full agreement of the trade union movement and without a code of self-discipline, which the TUC would have to make effective.

Italy: Slumping Bank Deposits; Tourism Losses

The Italian commercial banks have been having some problems this year with depositors who shift their funds into more rewarding types of investment. According to a representative survey of the banking association, the value of deposits at 91 banks dropped by 1.5% in the first half of 1980. At the 11 largest banks, in fact, the decrease was 4.2%. The most serious decline was reported by Banco di Roma, with 18%, followed at some distance by Banco Toscana (6.5%) and Monte dei Paschi Siena (4.9%). As a result, some banks have begun to encounter liquidity problems.

The association attributes the deposit shrinkage mainly to the transfer of funds into treasury bonds, which offer nominal interest yields three to four percentage points above the deposit rates. Banking spokesmen say that the rise in deposits normally experienced in the second half of the year should be weaker in 1980 than in the past, so that the overall increase this year should come to 16-17% at the maximum. With a predicted annual inflation rate of more than 20%, this would mean an effective reduction of deposit levels for the first time in many years.

In other news, government authorities have reported a considerable decline in the number of foreign tourists entering Italy in the January-August 1980 period. Border officials registered 40.8 million arrivals during that period, which was about 8% less than in the comparable 1979 period. Particularly affected by the slump were the months of June (-17%) and July (-22%), whereas August showed a 7% increase. The most pronounced foreign tourism losses were reported for the southern regions. A number of factors are blamed for the decline, which could have grave consequences for the Italian payments balance. Among them are the apparently overvalued lira, steep price increases, the abolition of gasoline coupons for foreign tourists, and a growing crime rate. Also, there have been doubts as to the effectiveness of Italian tourism promotion abroad, particularly where it falls under the jurisdiction of the individual regions.

Luxembourg: Bond Issue, Reserves to Bridge Budget Gap

The retarded growth of regular fiscal revenue is causing a considerable financing gap in Luxembourg's 1981 draft budget, as passed recently by the cabinet. With anticipated expenditures of LF 51.2 billion, the total deficit would run to LF 3.1 billion and require the floating of an LF 1.75-billion state bond issue. An offering of this size would approach the capacity limits of the domestic capital market, according to Finance Minister Jacques Santer, and only the tapping of accumulated reserves will make it possible to bridge the gap. The revenue picture is being negatively influenced by a slowdown in corporate tax revenues resulting from weaker earnings of the Luxembourg-based banks, the Grand Duchy's No. 1 taxpayers.

In its budget planning policy for 1981, the government is making a special effort to (1) curb the growth of consumptive expenditures and (2) stimulate industrial consolidation and diversification as well as the creation of new industrial zones. For the latter purpose, it has set aside LF 1.026 billion, after 845 million this year and 427 million in '79. Additional funds are being earmarked for export promotion and the improvement of public infrastructures. The budget draft further provides for a number of social welfare and fiscal relief measures, including a proposed inflation adjustment of income tax tariffs and a 25% increase in the tax-free allowance for deductible expenses.

Netherlands: Budget Boost for Private Investments

Noting that "painful decisions have to be made," the Dutch government has submitted a 1981 budget draft commensurate with its aims to save a total of 6.6 billion guilders in public expenditure this year and next. Of this total, spending cuts of 3.6 billion remain to be made next year - 1.2 billion guilders in the health and social welfare sector, 800 million in civil service remuneration, and 1.6 billion distributed over the various public departments, including defense. The Dutch will have to accept a purchasing-power loss averaging 1.5% in 1981, predicated on average nominal pay increases of 8%; for the first time, low-income earners will not be spared. Overall, the budget shows expenditures of 140.2 billion (1980 = 132.2 billion, adjusted) and revenues of 127 billion (117.6 billion). Thus, at 13.1 billion, the predicted deficit would be slightly lower than this year (14.7 billion) and would correspond to 4.25% (5%) of national income.

Extra revenue from renegotiated contracts for natural gas exports will total 1.3 billion guilders next year and 2 billion in '82. The government wants to use these funds to ease the financing of private-sector investments. Next year 765 million guilders are to be set aside for a reduction of profit taxes and another 425 million for a permanent boost, from 7% to 10%, in investment premiums on capital equipment purchases. In fact, by July 1981, these premiums are to be raised to 12%. Aside from these investment promotion measures, The Hague plans to allocate an additional 655 million guilders for the stimulation of construction sector employment, general labor market aids, and energy savings. To alleviate rising unemployment in the construction sector, for instance, some 285 million guilders would be reserved toward the building of 10,000 social housing units.

In other news, the Dutch central bank on Sept. 22 lowered its discount rate by half a point to 8.5%, apparently in reaction to the German Bundesbank's 0.5% cut in the Lombard rate, to 9%, the day before.

Denmark: Discount Rate Brought Down to 12%

Effective Sept. 19, the Danish central bank lowered its discount rate from 13% to 12%, noting that this move was justified by a slightly improved payments balance outlook, lessened inflationary pressures, and the relative stability of the exchange markets. The commercial banks are now expected to bring down their lending rates by about the same margin; these rates have averaged 18%. The central bank had fixed the discount rate at a record 13% last February, up from 11%.

Sweden: Employment Protection Law May Be Eased

Sweden's strict law on the protection of workers against unfair dismissal, believed to be partially responsible for a lack of flexibility in the labor market, may be modified when a government-appointed expert commission considering a reform of the law submits its recommendations. Dating from 1974, the present law stipulates that an employer must present "solid grounds" for dismissal; if his reasons are later found to be invalid, he could be forced to pay damages to the dismissed worker. Depending on their age, all employees are entitled to notice of dismissal ranging from one to six months. In the case of layoffs, the "last in, first out" principle is established by law. It is claimed that this has led to an ossification of the labor market, whereby employers avoid hiring new workers for fear of the costs of dismissing them, while employees do not change jobs as often as they might for fear of losing job security.

The employers have proposed a modification of existing regulations to allow the hiring of temporary labor for up to six months, without the normal protection against dismissal, to cope with purely temporary production increases. The trade unions have rejected this, suggesting that such agreements be concluded only on a direct basis between individual employers and trade unions. The expert commission has indeed found that many wage agreements include clauses limiting the application of the dismissal regulations. Some 94% of these agreements permit a six-month period of "provisional" employment for school-leavers and college-leavers engaged in a job for the first time and for persons unable to present any evidence of appropriate qualification for the job they are doing.

The commission is believed to be discussing a compromise, which would involve a new section of the employment protection law permitting the employment of both temporary labor and young people taking their first job, with three months' notice and no other protection against dismissal.

Turkey: Previous Economic Policies to Be Continued

Turgut Ozal, former chief economic adviser of deposed premier Suleyman Demirel, has been appointed deputy prime minister in the new civilian cabinet installed by Turkey's military rulers. Ozal, who previously had negotiated two major packages of financial aid with Western governments, apparently has been given full control over economic affairs. He is being backed by official statements to the effect that Turkey will honor all agreements and protocols signed by the previous government with the International Monetary Fund and other Western creditors. In a press conference, the military leaders indicated that they wished to see a continuation of Demirel's economic policies, and they called on the OECD member nations to support Turkey in its struggle to regain economic stability.

Following the takeover, Ozal demonstrated his determination to continue with his austerity drive by raising prices of gasoline and liquid fuels, sugar, and fertilizers by up to 20%. However, the trade unions have been banned and their bank accounts blocked, while new legislation governing labor relations is being devised. With the country operating under martial law, strikes also have been declared illegal.

Repayments of principal on Turkey's foreign debt of $10 billion have been suspended since 1977. Extensive debt rescheduling agreements have been worked out with Western creditors through the mediation of West German finance minister Hans Matthöfer, involving $1 billion in state or state-guaranteed credits and over $2.3 billion in other, commercial debts. Nevertheless, Turkey still has hardly sufficient foreign exchange to meet immediate import requirements of energy, raw materials, and spare parts. At present 60% of export revenues goes to pay for oil imports. This year Turkey received loan commitments of $1.16 billion from OECD countries, following $900 million in 1979. In addition, the EEC has promised to lend DM 1.5 billion over a five-year period, the IMF will lend $1.6 billion over the next three years, and the World Bank will give soft loans of $260 million this year.

Common Market Reports

EUROMARKET NEWS

Issue No. 613   *Report No. 407, October 15, 1980*

IN THIS ISSUE

Community: Progress on Fishing; New Lamb Market

On Sept. 29 the Council of Ministers removed yet another obstacle to a common fisheries policy and thus moved the EEC closer to the introduction of such a policy, which is expected on Jan. 1. The Council enacted a regulation on technical conservation measures concerning the definition of fishing areas, minimum net mesh sizes, a ban on catching Norway pout, and restrictions on the use of certain types of gear or boats, especially beam trawlers. This regulation took effect on Oct. 1 and will remain in force until Dec. 20, pending the solution of the remaining issues which are supposed to be settled by then.

Meanwhile, an end to the British-French lamb and mutton war seems in sight because France has dropped its objections to certain details of the proposed common market organization; the regulation is now scheduled to take effect on Oct. 20. Paris had objected to the proposed rules on imports from third countries, notably New Zealand. It insisted that the French market be protected over a four-year period against any increase of New Zealand frozen lamb imports. Under the regulation, France could apply to the Commission for a ban if imports exceeded 20,000 tons annually. Under a separate agreement negotiated by the

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Commission, New Zealand's annual lamb and mutton exports may total 234,000 tons in 1980 and 245,000 tons annually in the years thereafter. In return, New Zealand was offered a cut in the import tariff from the current 20% to 10%.

The British-French lamb war developed over the French government's policy of protecting its lamb and mutton market from lower-priced British imports. France even defied the European Court of Justice, which held in September 1979 that the import ban was in violation of Articles 12 and 30 of the Treaty of Rome. In essence, the regulation comes close to the French government's concept of protecting French sheep farmers, who are expected to benefit most from high price guarantees, intervention buying, and cash subsidies. It has been estimated that the compromise will cost the EEC $1 billion in 1981 and more in the following years *(Common Market Reports, Par. 10,036)*.

Commission Probes State Aids in Farm Sector

As part of its clampdown on illegal state aids, the Commission is also taking a closer look at the various ways the Member State governments are aiding farmers. These illegal aids in the past have been subject to recurring complaints from various sectors, including national farmers'associations complaining about help to farmers in other States. The EC executive now wants to determine if and to what extent national governments violate the provisions of Treaty Article 92, which bars any type of aid that distorts competition insofar as it affects trade between the States *(Common Market Reports, Pars. 2921, 2922)*.

In a letter addressed to the State governments, Brussels draws attention to the fact that Article 92 bars direct as well as indirect state aid. In the Commission's view, a case of indirect aid is Holland's low-priced natural gas sold to hothouse operators. After receiving complaints from German vegetable and flower growers, who pay a much higher price for natural gas, the Commission launched an investigation but did not follow up on it. It was only after considerable pressure from the German government that the Commission threatened The Hague with action before the European Court of Justice.

Certain credit practices, notably in France and Italy, constitute another kind of indirect aid. French farmers' banks received in 1978 roughly FF 5 billion in government funds to subsidize loans at rates ranging from 4% for junior farmers to 11% for other farming purposes. In Italy, farmers may avail themselves of long-term credits for as little as 1-3% annual interest. Other States, such as Germany, have either abandoned low-interest credit or have substantially scaled down loan subsidies. The U.K. never did offer interest subsidies and instead chose to award grants.

Taxation is yet another area where indirect farm aid can be found. In Ireland, the government's plan to subject farm incomes to taxation almost caused a revolution among farmers. In France, Germany, and Italy, the income tax paid by farmers remains modest. Even Germany's recent tax legislation, enacted for constitutional rather than illegal-aid considerations, is still lenient, according to critics. Only Dutch and Danish farmers pay income tax like other taxpayers in the same brackets. There are also differences in value-added tax treatment. While farmers in eight States pay VAT on investments, such as the purchase of farm equipment, their U.K. counterparts are entitled to a VAT refund.

In Brief...

The Council reached a consensus on Oct. 1 to better control the use of hormones in veal and other meats. Existing legislation prohibits the use of hormones as additives in animal foodstuffs, but there are no rules barring the injection of hormones into live animals, which is a common practice. Consumer organizations have been criticizing the absence of legislation for years. The matter was made urgent by the Sept. 24 decision of an Italian judge, who placed a temporary nationwide ban on the sale of veal because of suspected estrogen residues. Future legislation drafted by the Commission would establish rules to ensure compliance with the hormone ban by farmers and slaughterhouses + + + Commission officials have welcomed Tokyo's announcement that it will make efforts to slow Japanese exports of automobiles and color TV sets to the Common Market, especially Germany. Success of these efforts would considerably lessen, if not rule out entirely, the threat of retaliatory action by the Community or individual States. As a result of the Japanese sales offensive, the EEC's trade deficit with Japan took a turn for the worse from January through August 1980, while Community exports to Japan remained at last year's level. Estimates put this year's shortfall at almost $10 billion, nearly double that of 1977. The rising imbalance has prompted Commission vice-president Wilhelm Haferkamp to invite Japan's special trade envoy to Brussels this month to discuss the issues.

Germany: More Taxpayers Face Periodic Audits

Thousands of German businesses now subject to tax audits at three-year intervals must reckon with a visit from government agents at shorter intervals as of 1982. Several hundred thousand small businesses that in the past have never had revenue agents on their premises can also expect such audits starting in 1982. This change in the government's audit practice would result from planned changes in the criteria applied in classifying an enterprise *(Doing Business in Europe, Par. 23,369)*.

Taxpayers subject to government audits are at present divided into four categories: large, medium-sized, small, and very small enterprises. Large enterprises face audits practically every year; enterprises in the other three categories are usually audited every third year. While this four-class system would be retained, the criterion of annual sales that determines the category would be lowered. This would mean that businesses that have never been audited before because their sales did not reach the minimum volume would come under the net of government audits. What are now considered medium-sized enterprises would be classified as large enterprises and thus could be audited every year. There would be no change in the existing profits criterion.

Under the current system, a commercial enterprise is considered large if its annual sales exceed DM 7 million or its taxable profits exceed DM 230,000. (The figures for a medium-sized enterprise: DM 750,000 sales or 35,000 profits; small: DM 160,000 or 18,000.) Under the future rules, a commercial enterprise would be treated as large if its annual sales exceeded DM 4 million (medium-sized: DM 250,000 sales; small: DM 110,000 sales). The present criteria applied in classifying manufacturers are: DM 3.6 million annual sales or DM 170,000 taxable profits for large enterprises (medium-sized: DM 400,000 or 35,000; small: DM 70,000 or 18,000). The sales criteria would be cut in half for the first two categories so that a manufacturing enterprise with annual sales of DM 1.8 million or more would be classified as a large business (medium-sized: DM 200,000). A craftsman would move into the small category if he had sales exceeding DM 50,000. Important for all members of the liberal professions would be a drastic lowering of the annual income criterion from the present DM 150,000 to DM 50,000.

Voters Strengthen Liberals in Bonn Coalition

The outcome of the parliamentary elections on Oct. 5 should encourage the German business community to focus its expectations more than before on the policy role of the liberal Free Democrats (FDP), junior partners in the reinstated coalition with Chancellor Helmut Schmidt's Social Democrats. The FDP scored an unexpected success by gaining 10.6% of the vote (1976 = 7.9%) and adding 14 mandates, for a total of 53. Thus, the small party strengthened the ruling coalition virtually single-handedly, while the Social Democrats (SPD) won only three additional mandates (now 218, on the basis of 42.9% of the vote). Together, SPD and FDP have a comfortable total of 271 seats in the new Bundestag, compared with the Opposition's 226. The challenging Christian Democrat-Christian Social Union, under Franz-Josef Strauss, dropped by more than 3% to 44.5%, although it did remain the largest parliamentary party.

Their election "victory," in relative terms, should give the Liberals a greater influence on government policy and thus provide a more effective counterweight to the pressures of the extreme left wing of the Social Democrats. One of the key FDP men is Economics Minister Otto Lambsdorff, a staunch advocate of a "free market economy" and an opponent of too much state control in this area. Other crucial cabinet posts held by the FDP are foreign affairs (Hans-Dietrich Genscher, party leader and deputy chancellor), interior affairs (Gerhard Baum), and agriculture (Josef Ertl). Commentators expect the Liberals to adopt a more independent attitude in the upcoming coalition talks, especially in such areas as codetermination, energy, and social policy.

Ireland: Wage Understanding by Employers, Unions

After lengthy negotiations between the Irish union and employer representatives and the personal intervention of Prime Minister Charles Haughey, a new National Understanding has been provisionally accepted, subject to final approval of a special conference of the Irish Congress of Trade Unions. The agreement provides for an initial eight-month phase with a pay increase of 8%. A second phase will last for six months and involve an extra 7% rise. For some employees, the operative period will run from Aug. 1, for others from Oct. 1, and increases will be retroactive, where indicated. If the consumer price index figure for the nine-month period from mid-May 1980 to mid-February 1981 rises above 10%, the Employer-Labour Conference will meet to consider a possible upward adjustment. However, the agreement emphasizes that "this does not impose an obligation on employers to negotiate a particular level of increase." There is provision as well for trade unions to negotiate the introduction of 19 days' paid leave in 1981 and a further day's leave for those who already enjoy 19 days or more.

The government has undertaken to create 22,000 new jobs by the end of 1981, mainly in the private sector. Paid maternity leave is to be introduced from April 1981, and there is to be a pay-related national pension plan. Personal tax allowances will be raised in the next budget, and social welfare payments will be kept in line with the cost of living. The government is to examine the possibilities of reducing worktime limits and extending employee participation at board level in more state enterprises. In addition, greater emphasis is to be placed on the development of scientific and technological education at all levels.

Belgium: Government Crisis Over Social Insurance

A rift within Belgium's six-party coalition government over the financial resurrection of the country's social insurance system led to the resignation of Prime Minister Wilfried Martens on

Oct. 7. However, Martens subsequently agreed to another bid to save the coalition, which had been reorganized only four months ago. Belgium's social insurance system is expected to accumulate a deficit of BF 34 billion next year, and the government initially had proposed to cover half the shortfall via budget savings and the other half through contribution increases.

The dispute over an acceptable way to return the system to financial health is mainly between the unions and the Socialist coalition partners on the one hand and the employers and the Liberal coalition members on the other. The former oppose any drastic austerity measures, fearing that these would erode fundamental welfare gains achieved so far. The employers insist on the savings, arguing that contribution increases would further weaken industry's international competitiveness. Their position is fully shared by the Liberals in the cabinet, who presented Martens with a de facto ultimatum on this issue, forcing his resignation. In subsequently trying to keep the coalition together, Martens offered a compromise combining wage restraint and the taxation of unemployment benefits with business incentives and construction sector aids; however, most observers did not think these efforts would succeed.

Luxembourg: More Double Taxation Treaties Sought

In seeking to negotiate double taxation agreements with an additional number of third countries, Luxembourg hopes to achieve a favorable competitive climate similar to that of other international finance centers, not least for the benefit of its own industries. This statement was recently made by Dr. Ernest Muhlen, deputy finance minister, in answer to criticism that the Grand Duchy was principally interested in gaining tax privileges for the banks domiciled in Luxembourg. In this connection, Muhlen pointed to Luxembourg's changed treatment of taxes on interest income withheld at the source by third countries: such withholdings in the future can be set off against the Luxembourg tax debt at the rate of 15% instead of 7.5%. This, said Muhlen, will facilitate the provision of loans to countries with which the Grand Duchy does not maintain double taxation agreements and which impose withholding taxes on interest income. In addition, Luxembourg has now enacted measures according bank branches, which cannot take full advantage of double taxation provisions, the same status in this respect as bank subsidiaries.

Muhlen said that Luxembourg does not limit itself solely to unilateral measures on avoiding double taxation. He referred to agreements with Brazil and Mexico, which should promote new financing transactions with South and Central America, and said that tax treaties have been initialed with Denmark, Italy, Morocco, and Norway. Negotiations are being conducted with Finland and Spain, and the government has further declared its readiness to open talks with Greece, Sweden, and Switzerland.

Spain: Draft Budget Boosts Public Investment

The draft budget for 1981 presented to the Spanish parliament by Finance Minister Jaime Garcia Anoveros proposes a 24% increase in total spending to 2,823 billion pesetas. The projected deficit remains unchanged at 435 billion pesetas. The principal feature of the new budget will be a substantial increase in capital investment in the public sector from 135 to 179 billion pesetas, affecting mainly public works projects and low-cost housing. Defense, with 11.9% of total spending, will rise from 286 billion to 337 billion pesetas. Education will remain the biggest expenditure item, at 13.5%. The draft budget is expected to be the subject of prolonged debate and is unlikely to be passed before Christmas.

The government proposes that 16% of the total borrowing requirement be covered by foreign loans, 30% by domestic issues, and the remainder by the Bank of Spain. So-called off-budget items total 2,084 billion pesetas; they cover special allocations for the regions, financing of state-controlled companies, and reorganization of the social security system. However, state support for loss-making public enterprises is to be pegged at 1980 levels. Subsidies on petroleum products will be cut by 25%. Civil servants' salaries will be allowed to increase by only 12%, and pensions by 12-14%; inflation is currently running at over 17%.

Finance Ministry projections estimate a 3.5% increase in fixed capital formation next year, reversing the negative trend of the past two years. Domestic demand is expected to rise by 1.8%, after stagnating this year, and GNP growth is projected to reach 2.5% (0.5% this year). Inflation is forecast to fall to about 13.5%. The government has adopted a long-term policy to stimulate private investment through a progressive reform of the financial system. A more flexible interest rate structure may be introduced to encourage savings.

EURO COMPANY SCENE

Bayer Blocked From Acquiring Firestone France

The German cartel authorities have blocked the takeover of Firestone France SA by a French subsidiary of Bayer AG, one of the top three German chemical companies. The cartel office said the purchase would strengthen the "dominant" position of Bayer and its 50% subsidiary Bunawerke Huels in the German market for synthetic rubber. Bayer said it will appeal the decision, arguing that Firestone sells over 90% of its production outside Germany.

Dow Chemical Plans Scottish Plant

Dow Chemical has made a proposal to the U.K. government for the construction of a large petrochemical plant on Cromarty Firth, northern Scotland. The complex, which would require investments estimated at £400 million by 1990, would depend on the routing of liquefied natural gas from the northern North Sea to Nigg Bay, Cromarty Firth, where Dow has already acquired a site.

Conoco Announces U.K. Investment Plans

The United States' Conoco says it intends to "invest heavily" in U.K. offshore oil exploration and exploitation and, possibly, in a petrochemicals plant. Conoco has just started up its Murchison field in the North Sea, which was developed at a cost of £500 million. Within half a year, the field is expected to yield 120,000 barrels a day, or about 7% of Britain's oil needs. Conoco is also developing the Hutton field, in which it has a 20% interest.

International Harvester to Invest in Spain

An investment commitment of up to $250 million over the next five years has been agreed to by International Harvester in connection with a cooperation deal signed with the Spanish state holding INI. Harvester will acquire a 35% interest in INI's Enasa, Spain's No. 1 producer of medium and heavy trucks, but has an option to become the majority shareholder eventually. The contract also provides for the construction of a diesel engine production plant, with an output of more than 80,000 units, most of them for export to the U.S. Furthermore, IH plans to produce as of 1983 up to 8,000 small tractors for the domestic market at Enasa's Barcelona plant. The agreement with Harvester has been described as a major boost to INI, which previously had failed to integrate SEAT, the car maker, with Italy's Fiat.

Germans Buy GM Construction Equipment Division

Germany's IBH Holding, Europe's largest heavy equipment producer, will take over General Motors' Terex division, which makes heavy-duty construction vehicles, as of Jan. 1. The purchase, for an undisclosed price, will include Terex operations in the U.S., Brazil, and Britain. At the same time, GM will acquire 13.6% of IBH through a capital increase of DM 40 million. After the acquisition of Terex, IBH will have worldwide sales of DM 2.35 billion and about 13,000 employees.

Common Market Reports

EUROMARKET NEWS

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IN THIS ISSUE

Community: Extending Workers' Information Rights

The Commission has proposed legislation that would compel multinational corporations and national companies with more than 100 employees to inform and consult employees on a wide range of business matters. An important feature of the draft directive is that it would also apply to multinationals with headquarters outside the Common Market. If the head office of a multinational corporation is not located in any of the nine Member States, one of its Common Market subsidiaries would have to be designated to provide information about the enterprise to the corporation's workers in the EEC. If such a corporation failed to designate a subsidiary, management of the subsidiary employing the most workers would have to assume the information responsibility in accordance with the law.

Should the Council of Ministers approve the proposal in its present form, management would have to inform employees or their representatives every three months about the enterprise's economic and financial situation, current and pending business, production figures, sales trends, job outlook, and investment and reorganization programs. The management of a multinational corporation or a large national group of companies established in the EEC would have to inform employees about key policy mat-

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ters at least twice a year; the information would have to include issues such as rationalization plans and manufacturing and production methods, especially the introduction of new working methods.

In consulting its employees, and 40 days before making a decision, a company would be obliged to provide information about any pending decision likely to have a substantial effect on the workers' interests. Management would be required to explain the reasons behind its proposals; the employees would also have to be told about the legal, economic and social consequences of planned changes such as closures, mergers, reorganizations, or possible cooperation with other companies.

The draft directive largely follows the OECD's recommendations for guidelines on what multinational corporations should disclose to employees. There is nothing in the proposal that comes close to the rights that workers have obtained through legislation in Denmark, Germany, and the Netherlands. In those countries employees are involved in the decision-making process in various ways. In Germany, for example, employees elect representatives to a company's supervisory board *(Doing Business in Europe, Pars. 23,222, 23,279, 23,441)*.

Presentation of the measure ends a year-long dispute within the 13-member Commission about the propriety and the scope of the proposal. Commissioner Henk Vredeling, the principal backer of the measure, rejected suggestions that enactment would deter multinationals, especially U.S. corporations, from investing in the Common Market. He pointed out that Denmark, Germany, and the Netherlands have developed a fairly stable labor-management climate which continues to attract foreign investments.

Brussels observers expect considerable opposition to the measure from several Member States, especially the U.K. Several national business associations have come out in protest against the measure, including the Confederation of British Industry. Lively discussions are expected in the European Parliament, the Economic and Social Committee, and, eventually, in the Council working group. It may be several years before the Council votes on the measure.

Mandatory Curbs on Steel Production Sought

Commission officials anticipate that the Council of Ministers will grant the Commission the crisis powers it needs to impose production quotas on the Community's steel producers. The Commission's request for such powers falls under Article 58 of the Coal and Steel Treaty. It is accompanied by an emergency plan calling on companies to produce 13-20% less steel than in 1979; the mandatory quotas would remain in force until July 1, 1981. Commission inspectors would monitor production, and manufacturers that did not adhere to the quotas could be fined $100 for every ton of excess steel produced. There would be no price controls or attempts to change agreements applying to imported steel, but steel imports would be monitored.

Although the German government remains opposed to mandatory production quotas, it is not expected to veto the proposal. Bonn is hoping that six months' experience with the quotas would be long enough to prove to Europe's steel makers that voluntary commitments are better than mandatory restrictions and the bureaucracy that goes with them. (On Oct. 10, German steel manufacturers agreed to voluntary production cuts.)

Never before in the 28-year history of the Coal and Steel Community was it necessary for the Commission to resort to Treaty Article 58, which empowers the EC executive, subject to the Council's approval, to impose production quotas and levy fines for noncompliance. The Commission saw no other way of bringing stability to an increasingly chaotic market marred by excess capacity, declining demand, and a potentially ruinous price war. The matter became urgent because Europe's steel companies, especially Italy's state-owned mills and a major German manufacturer, failed to observe voluntary production restrictions that they had agreed to under the 1978 Davignon Plan. This arrangement, named after Etienne Davignon, Commissioner in charge of industrial policy, expires on Dec. 31, 1980, and was to be replaced by a similar plan as of Jan. 1.

In Brief...

By bringing suit in the European Court of Justice, Britain, France, and Italy have launched a counterattack against the Commission's drive to stamp out illegal state aid. The three States allege that the EC executive does not have the power to issue general directives against unlawful state aid under Treaty Article 90(3) *(Common Market Reports, Pars. 2351, 2361)*. On June 25 the Commission had issued a directive compelling Member State governments to disclose any type of state aid to state-owned enterprises or other businesses in which public authorities hold a majority interest (Official Journal No. L 195, July 29, 1980, page 35). Although the Member States have until the end of 1981 to comply, the three suing States want a Court of Justice decision before that deadline + + + Professor Ulrich Everling has been appointed judge at the European Court of Justice for the period running from Oct. 30, 1980, until Oct. 6, 1982. Dr. Everling, a high-ranking official in the German economics ministry and head of its European section, is replacing Hans Kutscher, who tendered his resignation effective Oct. 30.

Britain: Enforcement of Accounting Standards

A draft reported by the U.K. Accounting Standards Committee recommends detailed changes in the way companies' accounting standards are established and enforced. These proposals are to be examined by the country's various accounting bodies in the near future. Tom Watts, the chairman of the committee, which took three years to reach its conclusions, says in the introduction to the report that companies are increasingly likely to be willing to breach accounting standards unless effective measures are taken. Watts sees the need for some supervisory body, beyond the deterrent of a qualified audit report, as a vital adjunct to setting accounting standards in the private sector. In fact, he says that unless there was a high degree of compliance with such a body, the state would have to intervene. The Committee clearly favors self-regulation rather than enforcement by legislation. However, it also emphasizes the considerable cost of the proposed reforms (some £400,000 per year) and feels that the accountants themselves would be able to fund only half this amount.

The report advocates setting up a board of trustees which would oversee the operations of a new Accounting Standards Committee and would be concerned with the latter's financing. Over half of the trustees would be drawn from the accounting bodies. The Committee would consist of 28 members - 23 nominated by the accounting bodies and five nominated by agreement between the chairman of the Stock Exchange, the Council for the Securities Industry, and the Consultative Committee for Accountancy Bodies.

A further change would be the establishment of a review panel to enforce standards, appointed jointly by the same three bodies and comprised of seven members - a legal chairman, two members of the Stock Exchange Council, and two accountants, with two others appointed after consultations with the Confederation of British Industry and the Institutional Shareholders' Committee. This panel would have authority only with regard to those accounting problems that relate to quoted companies. It would be actuated after a referral from the accounting bodies, the Stock Exchange, or the general public, and it would have complete discretion over the publication of any report.

The suggestion of involving outsiders in the control of the accountancy profession is likely to generate the most controversy, according to observers.

Germany: Decision Due on Scope of Works Council Rights

The German Supreme Labor Court has postponed until Dec. 12 its decision on whether management must obtain the works council's approval for the introduction of short-time work when the enterprise's suppliers or customers have gone on strike. The court must also decide whether workers could even be laid off temporarily without the works council's consent. These questions have come up in three test cases which stem from the 1978 walkout in Baden-Württemberg's metalworking industry and the November 1978-January 1979 strike in the Ruhr district's steel mills. The works councils of three companies outside the struck areas felt that the decision to put employees on short-time work without the works councils' agreement was against the law. Supported by the powerful metalworkers' union, they took their cases all the way to the high court.

The 1972 Works Council Act gives works councils codetermination rights in several matters, including the temporary reduction or increase in working hours *(Doing Business in Europe, Pars. 23,442, 23,443)*. Informing or consulting the works council about the scheduling of short time does not suffice; the works council must approve the decision. If it disapproves, a conciliation board decides instead. While the works council's rights are undisputed when an enterprise is operating in a normal situation, there is disagreement about whether the management of a company affected by strike action taking place elsewhere may lawfully introduce short time or even lay off employees without the works council's consent. The unions believe that allowing management to go ahead with such far-reaching measures without the works council's approval would be tantamount to legalizing what they term a "cold lockout" - in effect, locking out employees in an unjustified manner, since the enterprise itself is not the target of strike action.

At a hearing on Sept. 25 before the Supreme Labor Court, union lawyers representing the three works councils contended that Section 87 of the Works Council Act grants broad codetermination rights: the works council must be consulted not only about the introduction of short time but also about the hours involved, the days they fall on, the days of total shutdown, and which employees are to be affected. In the works councils' view, the reason for scheduling short time is irrelevant. They suggest that management of companies affected by strikes taking place elsewhere should contemplate other steps before considering short time, such as continuing full production where possible, transferring employees to divisions not affected by the strike, and assigning workers to maintenance and clean-up jobs.

The three companies argued that the strikes were planned in such a way that continued production soon would have been impossible. At that stage the companies would have had to bear the economic burden of temporary shutdowns or short workweeks, the defendants claimed. It was pointed out that employees receive federal unemployment benefits or compensation for short-time work. Since employers alone bear the economic risk, the companies argue, there is no room for codetermination rights on the works councils' part under Section 87.

France: Top Priority for High Technology

France's eighth Five-Year Plan, approved by the cabinet on Oct. 1 and covering the period 1981-85, emphasizes the need for a major government effort to promote scientific and technological research as well as the development of new and advanced technologies. R&D expenditures are planned to rise from their present level of 1.8% of GNP to 2.15% in 1985. Prime Minister Raymond Barre emphasized several key areas of concern, including the reduction of France's dependency on imported oil and raw materials as well as the improvement of the labor situation, social facilities, and living conditions generally. Unlike earlier plans, in which subsequent realities often failed to meet quantitative targets, the latest Plan attaches few concrete figures to its projections. The government wants the "new" method of planning to have a strategic character, taking account of several possible avenues of development.

The Plan foresees a total investment outlay of FF 100 billion spread over the next five years. Nuclear power and the fast-breeder reactor as well as telecommunications, electronics, computers, and office information systems are to receive special emphasis. Efforts will be made to modernize agriculture and make it more competitive in markets outside of Europe. The development of the processed food industry is to be pushed. Special attention will be paid to the need to reduce oil consumption: the planners project a reduction of the proportion of oil in total French energy consumption from 56% last year to 44% in 1985 and 30% in 1990. Total energy consumption is expected to rise from 193.5 million (metric) tons oil equivalent in '79 to 219 million tons in 1985.

Netherlands: Third Attempt at Profit-Sharing Law

Premier Andries van Agt's Christian-Liberal coalition government has unexpectedly put before the Dutch parliament a third version of a plan for employee "capital growth sharing" (VAD). The proposed bill is a revised version of two successive proposals debated in the latter part of the 1970s to set up a system for siphoning off "excess" corporate profits. Dutch politicians are preparing for general elections next May, and there is suspicion in some quarters that this is the reason for the government's renewed interest in the profit-sharing issue. The VNO employers' association has attacked the coalition for presenting the plan "at the worst possible time" and giving the impression that Dutch companies remain financially unaffected by present economic troubles.

Should the bill reach the statute books before the elections, it would take retroactive effect as of January 1980; otherwise, it would become effective on Jan. 1, 1981. Under the VAD proposal, excess profits would be channeled into two different kinds of funds - a collective fund for the Dutch labor force generally and individual funds set up for the workforce of each company. The system would apply to about 2,000 companies with pre-tax profits of at least 125,000 guilders. It would raise

300-320 million guilders in the first year of operation and 360-380 million guilders annually thereafter.

Companies would transfer profits to the funds in the form of shares or capital growth certificates. Cash transfers could be made only if approved by the works council in the case of a company's own fund or by the fund managers for the collective fund. A maximum permissible level (set at 1,847 guilders per employee for 1980) would be fixed for transfers to individual funds, and any excess would be diverted to the collective fund. Total transfers to both funds by any single company would be limited to 3% of all profits and would be fully deductible for tax purposes. The bill calls for the collective fund to issue payouts to employees after a ten-year period and bars the use of funds to benefit pension plans or early-retirement programs.

Norway: Budget Projects Higher Indirect Taxes

The government's draft budget for 1981 submitted to the Norwegian parliament by Finance Minister Ulf Sand proposes total expenditures, before loan transactions, of NKr 124.8 billion, a 12.7% increase over this year. Revenues are expected to rise by 20% to NKr 135.2 billion, leaving a surplus before loan transactions of NKr 10.4 billion. Because of the large state debt, however, a deficit on loan transactions of about NKr 14.2 billion is expected, resulting in an overall net borrowing requirement of NKr 3.8 billion. While inflation has risen above 11% in recent months, productivity growth remains as weak as ever, and the Norwegian kroner is thought to be persistently overvalued because of the country's oil wealth.

With the budget the Labor government is making an effort to switch some of the tax burden from personal income to consumption. An easing of income tax progressions is expected to cut tax rates by 5% overall. Child benefits are to be raised by 10%, and minimum old-age and disability pensions would be increased by 2.9%. The NKr 5.4 billion that these measures are expected to cost would be compensated by a NKr 1.9-billion increase in indirect taxes and food subsidy cuts of NKr 1 billion. Higher taxes and tariffs would affect vehicles, gasoline, public transport, alcohol, tobacco, electricity, and postal services. Other sources of increased revenue would be value-added tax, which would provide an additional NKr 4.5 billion, and oil, whose budget contribution would rise from NKr 10.8 billion this year to an estimated NKr 28.7 billion in 1981. In addition, the government has proposed an increase in the statutory annual leave period from four to five weeks and to six weeks for people over 60 years old.

The leveling off of oil production and a reduction in investments mean that next year's GNP will, for the first time in a long while, show a disproportionately greater increase in the non-oil and non-shipping sectors. GNP is expected to rise by 1% next year (4.1% in 1980) and by 2% if shipping and oil are excluded. Aggregate domestic consumption is expected to expand by 2.7% (3.2%), private consumption by 2% (1.5%), and public consumption by 4.2% (4.9%). Aggregate investments are expected to rise by 3.5% (4.2%) next year.

Austria: Vienna's Fiscal Proposals for 1981

The Austrian government has revealed details of upcoming tax proposals aimed at helping reduce the net budget deficit (borrowing requirement) by 6 billion to 25 billion schillings next year. Virtually the only positive news for taxpayers is the improvement of fiscal incentives for research and development projects and the raised ceiling on the tax deductibility of business-operated passenger cars. In the realm of income taxation, the treasury thus would forfeit some 300 million schillings annually. However, it would be well compensated by higher value-added tax revenues and public tariffs, which together would add up to nearly 1 billion schillings in extra revenues. Stiff VAT increases would affect solid and liquid fuels, natural gas, and electricity, where the rate is to rise from 8% to 13%. The leasing of passenger cars would be subjected to the "luxury" VAT rate of 30% instead of the present 18%. Charges for various public services would go up by 40-60%; the most common stamp duty, for instance, would be raised from 70 to 100 schillings. Postal charges would also be going up, while price increases for tobacco products and salt already have been implemented.

Finance Minister Hannes Androsch is still battling with the banking associations over the proposed abolition of state interest subsidies on premium savings contracts. Because the annulment of these subsidies would be retroactive to 1980 and because private legal contracts are affected, the banking associations are considering taking the government to court. Not implemented will be a controversial proposal earlier advanced by Chancellor Bruno Kreisky to impose a withholding tax on interest income generated by savings and securities deposits. Instead, the commercial banks as of next year would have to pay a special levy equal to 0.5% of their balance sheet totals plus 100,000 schillings per branch office. The overall burden would be limited to 1% of the balance sheet totals, and the levy would be dropped after five years. The treasury expects revenues of 1 billion schillings annually from this tax. A similar amount would be raised through a special 4% levy on the refinery prices of gasoline and diesel fuel; this tax also would be limited to five years.

Common Market Reports
EUROMARKET NEWS

Issue No. 615 *Report No. 408, October 30, 1980*

IN THIS ISSUE

Community: New Efforts to Lower Interstate Trade Barriers

Recent case law established by the European Court of Justice has encouraged the European Commission to be stricter in monitoring application of the EEC Treaty rules on the free movement of goods; Articles 30 and 36 are particularly pertinent in this respect *(Common Market Reports, Pars. 321, 322, 351, 352)*. In letters sent to the nine Member State governments, the Commission points out that certain judgments have considerably narrowed a State's options in seeking to keep out products made in another State (Official Journal No. C 256, Oct. 3, 1980, page 2). Accordingly, the EC executive has established guidelines that the States should abide by.

In February 1979, the Court of Justice held that any product lawfully produced and marketed in one State must, as a rule, be admitted to the markets of the others. Technical and commercial rules, even those applying equally to domestic and imported products, may create barriers to interstate trade only if the rules are necessary to satisfy mandatory requirements and to serve a purpose that is in the general interest and for which the rules are an essential guarantee. The purpose must take precedence over the principle of free movement of goods, the Court held (judgment of Feb. 20, 1979, Case No. 120/78; *Common*

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Market Reports, Par. 8543). Last June the Court ruled along the same lines (judgment of June 26, 1980, Case No. 788/79).

One major conclusion drawn by the Commission from the judgments is that a Member State government may not take an exclusively national viewpoint in legislating for the manufacture and sale of domestic products. The proper functioning of the common market demands giving due consideration to the legitimate interests of other States, according to the Commission. A State must admit a product conforming to the rules and manufacturing processes that are customarily accepted in the exporting State. In line with the Court's reasoning, the Commission would accept three categories of exceptions from the free-trade principle: when the rules (a) are necessary to fulfill mandatory needs such as public health, consumer or environmental protection, or fair trade, (b) serve a purpose in the general interest important enough to justify deviation from the free-trade principle, or (c) are essential for attaining such a purpose.

According to the guidelines drawn up for the Member States, a State may not bar the importation of a lawfully produced product from another State even if the technical or quality standards differ from those applicable to domestic products. If a product "suitably and satisfactorily" fulfills the legitimate objective of a Member State's own rules on public safety, consumer and environmental protection, and fair trade, the importing State may not prohibit the sale on its territory with the argument that the way the product fulfills the objective is different from that of domestic products.

Commission Insists on Being Informed About State Aids

Member States that have failed to live up to their obligations with respect to state aids have received from the Commission a letter listing the instances of noncompliance. (Britain, Italy, and France are considered the worst offenders in matters of state aid.) Although the content of the letters remains confidential, the introduction to each is identical and has been published in the Official Journal to emphasize the EC executive's determination to eliminate illegal state aid (No. C 252, Sept. 30, 1980, page 2).

What prompted the Commission to reveal part of an otherwise confidential paper is evidence of a growing tendency, more pronounced in some States than in others, not to fulfill the obligations laid down in Article 93 of the EEC Treaty. Paragraph 3 of that article requires each State to inform Brussels about any plan to grant or alter aid before the plan is put into effect. The Commission must be allowed two months' time to review a state aid plan, according to the Court of Justice, and during that time the plan may not be put into operation *(Common Market Reports, Pars. 2932.87, 8249).* If the Commission finds the planned aid incompatible with the Treaty, it may decide that the

State concerned must abolish or alter the plan within a certain period of time. Should the State fail to comply with the request, the EC executive or any interested Member State may bring the matter before the European Court of Justice *(Common Market Reports, Pars. 2931, 2932).*

In recent months some Member States have failed to inform the Commission at all or not in due time. This leads the Commission to believe that a general pattern of laxity has set in. It is conceded that in the recent past Member State governments frequently have been under extreme pressure to assist ailing domestic industries, a fact reflected in the increased number of aid plans notified to the Commission. Still, the EC executive stresses the philosophy behind the Treaty's state aid rules: a subsidy to one firm may result in unemployment at another. In the future the matters will be taken before the Court of Justice whenever there is any evidence of systematic or flagrant violation of the provisions of Treaty Article 93(3).

In Brief...

The Commission has opened a dialogue with the Japanese government to convince Tokyo that future negotiations might help let off some of the protectionist steam that has been building up within the Community over rapidly rising Japanese exports, especially automobiles, to the EEC. While welcoming the Japanese government's prediction that exports will slow for the rest of the year, the Commission wants a more substantial commitment, not only for the remaining months of this year but also for the future. The Commission has yet to convince the Member States that the time is ripe for such negotiations; Tokyo's support of the idea could considerably increase the chances of the Council's giving the Commission a negotiating mandate + + + The Council President has proposed a compromise to facilitate the harmonization of national rules concerning excise taxes on alcohol and alcoholic beverages. Most of the opposition is coming from Germany, which has been holding out against the introduction of an excise tax on domestic wine. According to the compromise proposed, the Member States would have to impose a uniform value-added tax rate on wine and beer as of Jan. 1, 1982. The excise tax on wine could not be more than three times higher than that levied on beer, and the States could obtain a grace period until 1987.

Germany: Cartel Office Bars Merger of Two French Firms

With its decision prohibiting Bayer's French subsidiary from acquiring a plant belonging to the Firestone France Corp., the German Federal Cartel Office has broken new ground in its antitrust practice. It was the first time that the Cartel Office barred a German subsidiary abroad from acquiring a non-German firm. A court will have to decide whether the FCO acted lawfully; the management of Bayer AG, the parent company, has vowed to take the case all the way to the Supreme Civil Court, if necessary.

On Sept. 28 the Cartel Office issued a decision barring Bayer France from going through with its plan to buy Firestone France's plant in Port Jerome, near Le Havre, which produces synthetic rubber, among other things. The Cartel Office maintained that the planned acquisition would strengthen the dominant position that Bayer AG and its 50%-owned Bunawerke Hüls have on the German market. The Law Against Restraints on Competition (GWB) empowers the Cartel Office to prohibit a planned merger deemed to create or strengthen a market-dominating position of an enterprise, provided that this position is not offset by an increase in competition on the relevant market or another market *(Doing Business in Europe, Par. 23,510C)*. In the Cartel Office's opinion, it is irrelevant that the French subsidiary, and not Bayer AG, one of Germany's three chemical giants, planned to do the purchasing. Nor does it matter that about 90% of the products made by the Firestone plant are sold outside Germany, namely, in France.

The decisive elements that led the Cartel Office to veto the planned merger were the potential effects of the merger on the synthetic rubber market in Germany. According to the FCO, the merger could put Bayer in a position to use the additional plant capacity to gain a larger share of the German market. More important, and in line with recently established case law, the Office also reasoned that Bayer AG would acquire licenses and patents from Firestone, which would also enhance Bayer's dominating position. If the planned merger were allowed to go through, a potential competitor could be prevented from entering the German market, according to the decision.

Antitrust lawyers point out that the Cartel Office went to great lengths to fulfill the criteria established by the Supreme Civil Court in 1978 in the Guest, Keen & Nettlefolds case. In that judgment, which upheld the Cartel Office's veto of GKN's planned acquisition of 50% of Fichtel & Sachs AG stock, the high court said that every time the Cartel Office applies its statutory merger control powers, it must also examine and give some indication of the way the new potential might be used aside from competitive aspects *(Doing Business in Europe, Par. 23,510C)*. The question remains whether the Cartel Office can really do what Bayer executives describe as intervention in the structure of the French economy. French authorities were not involved at all since French law requires notification of a planned merger only if the enlarged market share exceeds 40% *(Doing Business in Europe, Par. 23,016)*. The Cartel Office, for its part, has relied solely on the effects doctrine that the lawmakers envisaged and which the courts have backed so far in situations involving mergers between German and foreign firms.

Netherlands: Tax Cuts Instead of Wage Indexation

The majority of the Dutch parliament has approved proposals by the Christian Democrats, the main partners in the ruling center-right coalition, to suspend the twice-a-year price adjustment of wages in 1981 and instead implement partial tax cuts totaling 1-2 billion guilders. This would be made possible by raising value-added tax rates and excise duties and allowing the proposed budget deficit to grow even larger. By accepting the compromise decision, the government is now forced to revise its 1981 budget draft and to amend its "no change" stance regarding taxation.

In the budget debate prior to the vote, a parliamentary majority had come out for a lowering of real-term incomes next year by 2-4%, which was even more far-reaching than the 2% cut advocated by the cabinet of Prime Minister Andries van Agt. Both sides agreed that only a strict policy of incomes sacrifices could maintain acceptable employment levels and an adequate economic activity. Both also concurred that a voluntary collective pay contract negotiated by employers and unions would be preferable to further intervention measures by the government, which in the current year had decreed a uniform monthly pay increase of 26 guilders for everyone as of last July 1.

There was considerable disagreement, however, on how to spread the purchasing power loss among those affected. The government had argued that even minimum-wage recipients should accept a loss of up to 1.5%, while this percentage should go up to 3.5 for those in the higher income brackets. The Socialist opposition objected to touching low incomes but favored a 5% loss for high incomes. The Christian Democrats' proposal was to suspend wage indexation for a year and implement some tax cuts, which was the version eventually accepted.

As the budget planners returned to their drawing boards, the new situation had to be explained to the employer and labor representatives due to meet in another round of wage discussions. The unions in the past had been bitterly opposed to any tampering with wage indexation, and the first round of talks in early October had only confirmed their intransigence in this respect.

Britain: Business Failures Reflect Economic Recession

A 120% rise in notified business liquidations in the third quarter, normally the quietest period because of the summer holidays, has been reported by the largest U.K. underwriter of credit insurance. The comparison is with the same period of 1979. The total number of business failures notified to Trade Indemnity for the first nine months of this year was 1,638, which represented a 68% increase. The company said that the steep upward trend seemed to be continuing. It predicted that the engineering sector will be the worst affected over the year: having just survived the effects of the prolonged steelworkers' strike early this year, many firms are not able to cope with the severe recession. Indeed, among engineering and metal companies there has been a leap of 139% in liquidations in the first nine months of 1980.

In times of economic difficulty, it is customarily the building and construction sector that is worst hit. However, there was only a 17% rise in the January-September 1980 period, while that of the textile and clothing industry was 118%. The clothing manufacturers had a particularly bad performance, with failures increasing from 33 to 123. Trade Indemnity stressed that much of the problem in that area stems from the fact that those companies generally supply the retail trade, which has now drastically reduced its orders. Wholesale and resale distributors had a failure rate of 51%. By the end of August, Trade Indemnity had paid out £10.7 million, the largest amount recorded for any eight-month period in its 62-year history and virtually double the figure for the corresponding 1979 period.

Observers foresee no halt in the present scale of company failures. At the annual Conservative Party conference earlier this month, Chancellor of the Exchequer Sir Geoffrey Howe said there were "no sensible alternatives" to the government's present priorities of fighting inflation and maintaining monetary control despite the loss of output and jobs.

Belgium: New Government's Economic Austerity Plans

Belgian Prime Minister Wilfried Martens on Oct. 21 announced the formation of a new government composed of Christian Democrats and Socialists, which he hopes will be able to legislate the economic austerity program that he has been urging. The new coalition, which is supported by a majority of 140 out of 212 parliamentary mandates and is Martens' fourth, results from a government crisis precipitated recently when the right-wing Liberals quit the cabinet in protest to opposition to their demands for bigger cuts in unemployment benefits. Martens wants his plan for enforced wage restraint and major social security cuts to be ratified by congresses of the two coalition parties and then discussed at a national conference of employers, trade unions, and government representatives.

Although the main emphasis of Martens' program lies on austerity measures, some new incentives would be offered to businesses. Companies would be permitted to build tax-free investment reserves of up to 5% of total profits, although such reserves would then have to be invested within three years. The construction sector is to be supported by a value-added tax rate reduction, from 16% to 6%. Dividend payments on registered holdings of newly issued shares are to be free of income tax up to a limit of BF 75,000. Firms would be allowed to adopt unlimited write-offs under whichever system of depreciation they prefered for equipment purchased for energy-saving purposes. The government also expects to spend BF 3 billion on a program to create jobs in small firms through tax incentives and direct grants.

The economic austerity proposals concentrate on three different possible systems of wage restraint. The first would be a simple freeze of all incomes at a level guaranteed by the existing national system of pay awards, indexed to inflation. This would result in an annual rate of wage increase of about 6.5%. A second option would allow wages to rise above this limit, but on the condition that half the excess rise would be allocated to a "solidarity fund" for reducing the national debt. Employers would have to match this contribution and in addition pay a percentage to the social security system. The third option would be a straightforward government wage plan backed by official sanctions. Any of these programs would be expected to run for two years, backdated to Oct. 1, 1980. Also foreseen are a 5% pay cut for all elected and some appointed national and local government officials as well as a reduction in social security services, including unemployment benefits, of 1% of GNP, estimated at BF 3 billion next year. Tax collection may be improved to reduce evasion by a hoped-for BF 15 billion.

Italy: New Government Installed; Fiat Strike Settled

Three weeks after the fall of the Italian three-party coalition government under Francesco Cossiga, another Christian Democratic politician, Arnaldo Forlani, was able to assemble a new cabinet with a broadened majority of 90 seats in the Chamber of Deputies. The addition of the Social Democrats to the previous coalition of Christian Democrats, Socialists, and Republicans has required a redistribution of portfolios: the Christian Democrats now occupy 13 of the 26 ministerial positions; the Socialists, seven; and the Social Democrats and Republicans, three each. There is no change in the ministers in charge of the key portfolios of foreign affairs, interior, defense, budget, finance, and industry. However, Filippo Pandolfi was replaced by the prominent Christian Democrat economist Nino Andreatta as treasury minister, while Giovanni Marcora yielded to Giuseppe Bartolomeo as agriculture minister.

Forlani, who was elected president of the Christian Democrats at the party's last congress, differs from Cossiga in having been able to maintain good relations with the party's right-wing Fanfani section as well as with the group around ex-premier Andreotti, which favors closer cooperation with the Communists. The latter now appear prepared to attempt a policy of "helpful" opposition, in contrast to the outright hostility they exhibited toward Cossiga. Among other things, the Communists expect a measure of influence over the choice of parliamentary committee chairmen as the price for their cooperation. Socialist leader Bettino Craxi, meanwhile, has purged his party leadership of left-wing elements opposing the Socialists' collaboration with the Christian Democrats.

While negotiations to form the new government were in progress, the four parties involved agreed to legislate at the earliest possible moment key elements of the anti-inflationary package of economic measures that fell with the Cossiga government. This concerns particularly the "fiscalization" of up to 80% of employers' social contributions by June 1981, which would reduce wage costs by about 3,600 billion lire.

In other news, the worst strike at the Fiat car plants since World War II has apparently been settled after 37 days of conflict. National and regional leaders of the three main trade union confederations and the FLM metalworkers' union met at the Labor Ministry to sign an arbitration agreement. Workers had been on strike in protest against layoffs and firings. In the compromise agreement Fiat is dropping plans for the dismissal of over 14,000 workers in the automobile and steel divisions and agrees to keep 23,000 workers on state-subsidized layoff rolls until the end of 1981. Thereafter, however, the workers affected will have to accept jobs outside of Fiat. The company has lost an estimated 500 billion lire in output during the strike, although it benefits from the reduction in stocks of unsold cars by several tens of thousands of units. Workers have lost about 60 billion lire in pay.

France: Assembly Passes Share Distribution Law

The French National Assembly on Oct. 9 passed legislation extending existing worker participation rights by providing for the voluntary distribution to employees of company shares up to 3% of a company's equity capital. The individual contribution could total an average FF 5,000. Following long and intense confrontations over this issue between the two government majority parties (the pro-Giscard UDF and the Gaullists), the bill now passed is a heavily diluted version of the one first proposed by the Barre administration. The latter originally wanted to subject large quoted companies to a compulsory share distribution system. By contrast, the new law's provisions are of a strictly voluntary nature; they are aimed at both public and private companies. To compensate existing shareholders for the dilution of their capital, the law foresees partial compensation by way of state bonds.

Common Market Reports

EUROMARKET NEWS

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IN THIS ISSUE

Community: Employer Insolvency Directive Approved

The directive approximating Member State laws seeking to guarantee employees' back pay in the event of employer bankruptcy was adopted on Oct. 20, seventeen months after the Council of Ministers reached a basic agreement on the measure. Formal adoption was held up by disagreement over the annex listing the categories of employees that may be excluded from the scope of the directive. A major point of disagreement concerned whether coverage would extend to employees of companies established in one State and assigned to work in another; this issue was not settled in the directive but in a declaration written into the minutes of the Council's meeting which states that the directive does not attempt to resolve conflicts of law. The unusually long delay in formal adoption means that the States' compliance with the measure will be much later (Oct. 20, 1983) than was originally planned.

The version approved by the Council falls considerably short of what the Commission wanted in its original proposal, presented in April 1978 *(Common Market Reports, Par. 3910.17)*. (The draft contained major features of German law - *Doing Business in Europe, Par. 23,433D.)* The Commission had proposed the

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establishment of insolvency funds in all States as well as harmonization of national rules concerning not only back pay but also other benefits, such as vacation pay and severance pay. What emerged from the Council's working group and has now become Community law is not much more than the commitment to establish an insolvency fund to satisfy employees' back pay claims. (All States except Ireland already have legislation on the matter.) The differences in existing rules on benefits other than back pay will remain for some time, although the Council concedes that the insolvency directive can only be the first step in harmonizing national rules.

Opposition to full-fledged harmonization of benefits rules came from all States, though for different reasons. Council attorneys say that in the face of widely differing laws on benefits and opposition to alignment, the Council working group saw no other alternative but to cut back the original proposal to a rudimentary piece of legislation agreeable to all. In France and Germany, employees are entitled to generous benefits if their employer goes bankrupt. In all other States, especially in Britain, Ireland, and Denmark, benefits are considered meager. Harmonization along the lines of the Commission's proposal would have meant that either seven States would have had to conform to the French and German law standards, which several governments rejected because of the financial burden, or France and Germany would have had to lower their standards, a course of action that neither Paris nor Bonn wanted to take for political reasons.

Rules Proposed to Ease Interregional Air Services

Following up a request by the Council of Ministers, the Commission has proposed rules that would make it easier for airlines to obtain traffic rights for scheduled interregional air services between Member States. The draft regulation would establish Community rules for the authorization of frontier-crossing air transport routes other than the main trunk lines linking the Member State capitals and other major national airports. Having evidence that the absence of interregional services in many instances has curbed investments in outlying regions, the Commission believes that such rules could benefit less developed regions in the Community.

Under the existing bilateral system, air services between two States must be approved by both countries. There are no Community rules or criteria that a national government needs to abide by in refusing to license a new air service. The British government's recent refusal to allow Sir Freddie Laker to start up Skytrain flights to the Continent illustrates this point.

Although the proposed rules would bring no change in the trunk services, rendered for the most part by state-owned airlines, they would considerably change the framework for interregional services. Traffic rights could then be denied only on specified grounds - for instance, when the home State's government had doubts about an airline's financial standing and technical facilities to provide and maintain safe aircraft.

Under the proposal, a government confronted with an airline's request could not delay its decision; it would have four months to authorize or deny an application to set up an interregional air service. There would be an arbitration procedure to resolve conflicts. If one Member State approved an application and another disapproved, the parties concerned would have to seek a settlement within three months. If they failed, the case could be taken to the Commission, which would then consult with the parties (and with other institutions, if necessary) before giving its decision within five months. Finally, the proposal would provide consumers with an opportunity to express their views on the operation of existing interregional air services and the need for new services.

In Brief...

The German government is reportedly ready to give its approval to the Commission's emergency plan dealing with the European steel crisis. The EC executive has assured Bonn that the planned production quotas would not discriminate against Germany's efficient steel mills and that certain specialty steels would be exempt from the quota system. The specialty steels are made mostly by medium-sized companies that are up against heavy competition from Japanese manufacturers, and Bonn had feared that the production quotas would force the layoff of thousands of workers + + + The Commission has told the European Parliament that it will not decide on its draft regulation on patent licensing agreements until the European Court of Justice has rendered its judgment in Case No. 258/78 *(Nungesser & Eisele v. Commission)*. The regulation would relieve parties to licensing agreements from notifying the Commission about their intentions; the parties also would not need an exemption from the Treaty Article 85(1) ban on restrictive licensing agreements if the agreement met the conditions set forth in the regulation *(Common Market Reports, Par. 10,118)*. In its 1978 decision, the Commission had deemed contrary to Article 85(1) *(Common Market Reports, Par. 10,083)* certain clauses in a licensing agreement between France's INRA (Institut National de la Recherche Agronomique) and the two German parties. The agreement concerned the transfer of plant breeders' rights regarding the propagation and sale of corn (maize) seed. The Commission objected especially to obligations assumed by the licensor not to license other firms to produce or use INRA seed varieties in Germany nor to produce or use them there itself. The licensor also agreed not to license anyone else to distribute the seed in Germany and to prevent third parties from exporting it for distribution or use in that country. The two German parties brought suit in the Court of Justice to have the decision set aside. The written proceedings in Case No. 258/78 have been closed, but no date has been set as yet for a hearing of oral arguments. Thus, a judgment is not expected before the end of the year.

Germany: Bonn Parties Discuss Strained Fiscal Situation

The newly re-elected Schmidt administration is entering the 1981-84 legislative session with the largest public debt of any German postwar government, and it stands committed to its election campaign pledge of not raising this debt any further. Although Germany's economy is in better shape than that of most other West European countries, it is not expected to generate a large increase in revenue in the next few years. Thus, any boosts in individual and corporate income taxes are ruled out for the time being.

It is against this background that Bonn's two government coalition parties, the Social Democrats (SPD) and the Free Democrats (FDP), are currently negotiating over the administration's program for the next four-year term. The SPD has drafted a preliminary budget calling for substantial increases in excise taxes on gasoline, diesel fuel, and liquor as well as drastic cutbacks in government spending. Since the Free Democrats also favor this approach, it is likely that these ideas will be realized. It is planned to raise the excise tax on gasoline by DM 0.07 to 0.51 per liter as of April 1, 1981. There would also be a DM 0.03 increase in the excise tax on diesel fuel. These markups plus the higher liquor excise tax would be expected to yield DM 2.5 billion annually.

Among the changes to reduce public spending would be the repeal of the law that provides savers with a government-paid premium on top of the interest earned on their bank savings. There would also be a reduction in the premium granted to those who save toward the purchase of a home. These two changes would be applied gradually, however, so that existing savings contracts would continue to be honored. By 1984, Bonn's annual savings in this area would be about DM 1.4 billion. Another spending cut would be brought about by changes in the support system that allows farmers to buy cheaper fuel for their equipment and to pay low accident insurance premiums. The Free Democrats, furthermore, want to see additional cuts in federal expenditure on highway construction and costly research projects. They support the repeal of the vehicle tax and a corresponding increase in the gasoline excise tax. Some 3,000 civil servants handling collection of the vehicle tax would be given other tasks; they cannot be fired.

The new administration's plans in the legislative sector should be detailed in Chancellor Helmut Schmidt's policy statement on Nov. 24.

France: Panel Recommends Stock Exchange Modernization

A government-appointed commission has submitted a study calling for a sweeping overhaul of French stock exchange operations, and the Economics Ministry has accepted the recommendations for implementation. Headed by Maurice Peruse, director-general of the Caisse des Depots, the government finance agency, the commission has proposed a variety of measures to improve the Bourse's efficiency and make the stock market more attractive to the investing public. Among the recommended steps would be the introduction of electronic information systems linking the Exchange with banks and other offices, continuous trading operations, longer business hours (six hours per day instead of the present two), the abolition of the tax on transactions (1.5-3%), and higher commissions for banks and brokers to offer them better incentives. Also recommended is the phase-out of share certificates, which would be replaced by securities accounts to be introduced on a compulsory basis. It was reported that some 600,000 French investors are still keeping share and bond certificates at home or in bank safes.

Britain: No Need Seen for Tax Loophole Legislation

The U.K. Board of Inland Revenue has rejected the recommendation of the Parliamentary Public Accounts Committee urging special legislation to close certain tax loopholes. The Committee had drawn attention to three specific areas where tax has been avoided - earnings from offshore employment, from partnerships, and from woodlands managed on a commercial basis. The Committee wanted the Inland Revenue to pinpoint any further loopholes and calculate how much additional tax could be collected if they were closed. Consequently, "alternative legislative arrangements should be considered for facilitating the enactment of measures."

The Inland Revenue believes that, "in the great majority of cases where a new tax loophole is discovered, a satisfactory legislative remedy can be devised." It distinguishes between substantial and minor revenue losses, saying that where the potential loss of tax justifies such a course, an advance announcement of the intention to legislate may be made. When the legislation is introduced, it is then made effective from that date. The tax authorities stress that to follow the course of action proposed by the Committee "would be unlikely to shorten the time before a legislative remedy could be introduced and may well lengthen it."

Where the lost revenue is less substantial, the effective date for the introduction of amending legislation is usually the start of the tax year in which it is enacted by the annual Finance Act. The Inland Revenue has also indicated that legislation is not introduced in some cases where only small amounts of lost tax revenues are involved: in such circumstances, "there would be serious objections to adopting the course suggested by the Committee, since publication of information about the loophole could lead to its wider use."

The issue of tax avoidance was given wide publicity recently when the Sunday Times disclosed that certain members of the Vevey family had paid only minimal tax on sums received, which were in excess of £2.5 million. The report caused the Chancellor of the Exchequer, Sir Geoffrey Howe, to promise action to close the loophole. The alleged avoidance followed the ruling of the House of Lords in *Vevey v. C.I.R.* last November in which the Lords overturned the tax law that had been the basis of the Inland Revenue's operations since 1936 and which had been upheld in the case of *Congreve v. C.I.R.* (1948). As a result, if assets are held in a trust abroad and the income is paid to non-resident trustees, and if the trustees make payments to U.K. resident beneficiaries, then no tax liability is incurred by such beneficiaries.

In the House of Lords, Lord Dilhorms said at the time that there was a gap in the tax law and that "in this complicated case, at least one thing is clear and that is the urgent need for the reconsideration by Parliament" of the relevant statutory provisions. Last month the Chancellor said that the decision had come as a disconcerting surprise and that the government had immediately launched a review. "As soon as we have got the right answer, we shall be introducing legislation" to deal with the problem. In any case, observers believe that few new trusts will have been specifically operated to exploit this loophole, in view of the likelihood of imminent changes in the law.

Italy: Forlani Outlines New Economic Program

The country's deepening economic crisis will be the principal concern of the new Italian government. This was the thrust of Prime Minister Arnaldo Forlani's inaugural speech to Parliament which broadly outlined his cabinet's legislative program. Forlani hinted at possible new measures, including improved inflation protection for savings and a new start for the country's stalled nuclear power program. Also foreseen is the introduction of legislative proposals to boost value-added tax from 14% to 15% and to continue the "fiscalization" of about 80% of employers' social contributions, thus implementing the main elements of the anti-inflation package that fell with the previous Cossiga administration.

Emphasizing his government's intention to reduce the proportion of total demand represented by the state's expenditures, Forlani announced that investment will be given higher priority than consumption in the future. Rome will attempt to reduce the rate of inflationary expansion of liquidity in the banking system, expand aid to exporters, and improve productivity and labor relations. The program of tough economic measures is expected to receive the tacit backing of the Liberals, who so far have remained outside the coalition.

Meanwhile, Italy's economic situation continues to worsen. The payments deficit reached 4,419 billion lire in the first three quarters of 1980, compared with a surplus of 1,824 billion lire in the whole of 1979. Following the end of the tourist season, the September deficit was reported at 840 billion lire, following August's 273 billion. The nominal volume of imports in the first seven months of 1980 rose by 40%, while exports increased by only 17.5%. Moreover, import prices went up by an average of 32%, while export prices averaged only a 22% increase. At present the trade deficit is being financed mainly through a steady rise in the banks' foreign currency liabilities.

Netherlands: Still No Progress on 1981 Wage Agreement

The Dutch government has so far failed to persuade trade unions and employers to agree on a settlement of next year's wage round in accordance with its own economic policy. The Van Agt administration wants to see the rate of wage cost increases cut to 5.5% in 1981 from the 8% that would result from agreements already signed. Also sought is a reduction in annual holiday bonuses. Following the collapse of the second round of talks with the industrial partners, Social Affairs Minister Willem Albeda, who led the negotiations, warned that failure to agree on acceptable terms would force the government to impose wage controls for a second year. Chris Van Veen, chairman of the Dutch industry federation, the largest employers' organization, announced that he saw little point in continuing the negotiations and encouraged Albeda to announce wage controls immediately. Employers' resistance to union demands for job guarantees in return for wage moderation has led to a revival of long-standing bitterness between the FNV labor federation, which has 1.1 million members, and the employers.

In other news, the Dutch central bank has reduced the discount rate from 8.5% to 8%, the fourth cut this year. Central bank chief Jelle Zijlstra explained that the move was a consequence of international interest rate and foreign exchange conditions rather than domestic policy considerations. The guilder has been at its uppermost permitted level within the European Monetary System for some weeks, and it fell by only one cent against most currencies after the discount rate reduction. Zijlstra blamed Holland's relatively high interest rates on the enormous public borrowing requirements. According to the central banker, the Netherlands must keep its interest rates about 2% above those of its West German neighbor in order to attract foreign investors. Zijlstra thus indirectly confirmed The Hague's positive experience with the state bond issue floated early this year.

Austria: Budget Effort to Bring Down Net Deficit

The 1981 budget draft presented to the Austrian parliament by Finance Minister Hannes Androsch last month calls for expenditures of 335.1 billion schillings and revenues of 285.3 billion. Half of the budget deficit of 49.8 billion schillings would be required for servicing the debts of previous years, a trend that is expected to accelerate and severely cramp Vienna's financial maneuverability in the coming years. However, on the basis of the 1981 draft, Androsch would be able to realize his goal of reducing the net deficit to 25 billion schillings, compared with 30.7 billion in the current year and a record 35.4 billion in '79. Austria's net borrowing requirement would drop to 2.4% of GNP from 3.1% this year and more than 4% in previous years.

In his budget address, Androsch emphasized Austria's relatively positive economic performance in 1980 - a probable real-term growth rate of 3.5%, export growth of 2.75%, an unemployment rate of 1.9%, and an inflation rate of 6.9%. The economic picture is forecast to be somewhat less bright in '81, however, with growth predicted to slow to 1% and unemployment to rise to 2.2%. Inflation should stabilize at 5.5%. A central problem that remains is the negative payments balance: this year Austria will be spending 49 billion schillings alone on energy imports, which in turn accounts for 57.2% of the foreign trade deficit.

As previously reported, the government is proposing a number of new measures to keep the budget deficit within reason. Among them are a special federal levy on banking institutions as well as on crude oil imports and oil products, a value-added tax increase on electric power from 8% to 13%, plus higher tariffs on tobacco products, postal and rail services, and administrative services. Finally, it was decided to do away with state subsidies on premium savings contracts.

Spain: Draft Budget Projects Higher Indirect Taxes

The Spanish draft budget for 1981 projects a deficit of 435.6 billion pesetas (2.85% of the gross national income), which is to be covered by state bank contributions of 245.6 billion pesetas and domestic and foreign bond issues totaling 190 billion. The government's budget assumption is an economic growth rate next year of 2.5%, a figure that many critics call unrealistic, given this year's probable rate of 0.5%. To meet its target, Madrid plans to raise productive state investments by 31.1%; the necessary financing is to be obtained via higher indirect taxes, primarily on tobacco products and gasoline.

Common Market Reports

EUROMARKET NEWS

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IN THIS ISSUE

Community: EC Court Stresses Parliament's Rights

The European Court of Justice has held that the mandatory consultation of the European Parliament as required by the EEC Treaty enables the EP to participate in the Community's legislative process and therefore is an essential element in the balance of powers of the Community institutions. Even if the EP's role is limited, Parliament's participation nevertheless reflects a basic principle of democracy under which the elected Member State representatives are entitled to take part in the exercise of public authority. A disregard of this principle, which is embedded in the EP's right to be heard on legislative proposals, renders an adopted measure null and void, according to the Court. (Judgment of Oct. 29, 1980; *Maizena GmbH v. Council,* Case No. 139/79; and *Roquette Frères v. Council,* Case No. 138/79.) The judgment, which reaffirms the limited democratic element contained in the EEC Treaty, reportedly took some Council attorneys by surprise. Still, the Court found no fault with the substance of the measure at issue.

Two isoglucose manufacturers challenged Council Regulation No. 1293/79 (modifying Council Regulation No. 1111/77) on several grounds, including the argument that the EP had not given its opinion on the proposed measure as required by Treaty Article

This issue is in two parts. This is Part I.

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43(2) *(Common Market Reports, Par. 425)*. Regulation No. 1293/79 had introduced production quotas for isoglucose manufacturers for this year, and its major purpose was to subject these manufacturers to the same conditions that apply to businesses refining sugar from beets and cane. Isoglucose is increasingly used as a sweetener by the food and beverage industries. (The national farmers' associations and the sugar industry lobby, alarmed by the stiff competition, succeeded in 1977 in drawing isoglucose manufacturers into the common sugar market's regulatory net.) Although the levy provided for in Regulation No. 1111/77 was imposed on both isoglucose and sugar manufacturers, the way it was formulated favored the latter. It was essentially this discriminatory treatment that moved the Court to void Articles 8 and 9 of Reg. No. 1111/77 (judgment of Oct. 25, 1978; Case Nos. 103/77 and 145/77; *Common Market Reports, Par. 8486)*.

On March 7, 1979, the Commission proposed amendments to Reg. No. 1111/77, and on March 19, 1979, the Council asked the EP for its opinion, saying that the matter was urgent because the new rules were to become applicable on July 1, the day marking the beginning of the sugar harvest year. During its May 7-11 session the EP postponed debate until May 14, the final session prior to the direct elections in July. At that time, the EP rejected a proposed resolution on the amendments and returned the measure to the agricultural committee for reexamination. However, it also expressed its readiness to reconvene in an emergency should the Council or the Commission so demand. On June 25, 1979, the Council adopted Reg. No. 1293/79 without the EP's opinion.

Before the Court, Council attorneys argued that it was the EP's fault that it had not come up with the necessary opinion, and, since immediate action was needed, the Council could not have waited any longer. The justices did not accept this, reasoning that compliance with a mandatory formal requirement was so essential that other considerations, such as the necessity for quick action for economic reasons, did not come to bear. It was the second time that the Court stressed the EP's consultation rights: in 1970 it had ruled that the Council was required to ask the EP for an opinion if the substance of a measure had been changed in the Council working group, even if the EP had given its opinion on the original proposal (judgment of July 15, 1970; Case No. 41/69).

Concessions to Bonn Save Steel Crisis Plan

The German government's consent to the Commission's proposals dealing with the problems of the EC steel industry has prevented a major crisis in the Community. Approved on Oct. 30 by the Council of Ministers under Article 58 of the Coal and Steel Treaty, the proposals empower the Commission to impose production quotas and to fine steel makers for noncompliance.

The system will remain in force until July 1, 1981. It is hoped that by then Europe's steel manufacturers will return to the voluntary arrangement under which they agreed to cut production and to exercise price discipline in order to cope with excess capacities and declining demand. The voluntary arrangement - in fact, a Commission-sponsored cartel - worked fairly well until last summer, when an increasing number of manufacturers, led by Italy's state-owned steel mills and a major German producer, no longer felt bound by the commitment. Production was increased and a price war was started, which, in the Commission's view, would have ruined the industry had it been allowed to continue.

For several weeks the fate of the Commission's proposals was in doubt. There were several options open to Germany - (1) to agree to the proposals, (2) to block them with the help of at least one other major steel producing country, or (3) to veto them under the 1966 Luxembourg compromise formula, a de-facto amendment to the EEC Treaty which allows a Member State to veto any measure if its adoption would be contrary to that State's vital interests. Economics Minister Otto Lambsdorff tried to obtain French and British support to block the proposals. When this failed, efforts concentrated on winning concessions for the German steel industry.

What eventually convinced Bonn was that the EC executive proposed considerable concessions to Germany that the other eight States found acceptable. Bonn's major concern was that Brussels' plan would hurt the highly efficient German steel industry, whose production facilities were modernized years ago with government support, and would favor Britain's and Italy's outmoded, mostly state-owned and state-subsidized steel mills.

The agreed quotas will affect production to an extent that will cost only some 3,000 German steel workers their jobs, instead of the 7,000-8,000 anticipated under the Commission's original proposal. (There are 300,000 workers in Germany's steel industry.) Most of the small and medium-sized German companies making specialty steels are exempt from the quota system. Bonn also saw a positive factor in the Commission not asking for further powers provided under the Coal and Steel Treaty, which would have allowed it to set minimum prices and to curb steel imports. A German veto of the proposals would have meant that Italy's state-owned steel mills would have continued their price war, which Germany's privately-owned steel mills could not have endured forever because they cannot count on any major government support.

In Brief...

The Commission has temporarily suspended the granting of export rebates for animal feed after two German exporters lawfully obtained licenses to sell 500,000 tons of mixed feed to the Soviet Union despite the EEC's embargo on grain shipments to the USSR.

When the EEC instituted the rebate stop for exported whole grains in support of the U.S. grain trade restrictions against the Soviets, it failed to specify that mixed feed was included in the embargo + + + The Commission has told Tokyo that the Community expects a measurable slowing of Japanese exports to the Common Market, especially of cars and TV sets, prior to the EEC summit on Dec. 1-2. The Community also wants a subsequent pledge to keep Japanese exports at a certain level. If these demands go unheeded, the Commission says it will be difficult to resist the imposition of protectionist measures + + + The EC executive has proposed legislation that would ban hormone injections into animals to stimulate growth. The Council last month requested proposals along these lines after consumers in Italy, France, and Belgium boycotted the purchase of meat, especially veal, because of hormone residues.

Germany: Social Security Taxes Go Up in 1981

Social security contributions for German employees and employers will go up as of Jan. 1, 1981, resulting from a 0.5% increase in the rate payable to old-age pension funds and the annual rise in the ceiling of employees' assessable income. At present an employee is assessed at 18% of monthly earnings up to a maximum of DM 4,200, with employee and employer each paying half of the contribution. Because a 1978 amendment raises the rate from 18% to 18.5% as of Jan. 1, 1981, the old-age pension contribution of an employee earning DM 4,200 a month will go up to DM 777, from DM 756 this year *(Doing Business in Europe, Par. 23,453)*. Since the assessment ceiling will also be raised from DM 4,200 to DM 4,400, an employee with monthly earnings of DM 4,400 or more will be assessed DM 814.

The higher assessment ceiling for old-age pension fund contributions automatically increases unemployment insurance and health insurance contributions. The rate now applicable for unemployment insurance contributions is 3% on a maximum assessable monthly income of DM 4,200 *(Doing Business in Europe, Par. 23,456)*. When the ceiling is raised to DM 4,400 on Jan. 1, DM 132 will be due instead of the present DM 126.

So far as the health insurance contributions are concerned, raising the ceiling for the maximum assessable monthly income from DM 3,150 to 3,300 means that here too the burden shared by employer and employee will be higher. However, the amounts will vary somewhat because the rates imposed by the individual health insurance funds range from 11.5% to 12% *(Doing Business in Europe, Par. 23,454)*. All in all, an employee earning at least DM 4,400 will be paying about DM 44 more each month in social security taxes next year, and so will the employer.

Should the long-range predictions of several economic research institutes come true, another rise in unemployment insurance contributions is also inevitable. These institutions expect unemployment to rise from about 850,000 now to slightly more than one million by the end of next year. This figure could go up to as high as two million by 1984. The government's labor affairs office is barely managing to pay unemployment benefits: the revenue from employer and employee contributions has to be augmented by roughly DM 2 billion a year in taxpayers' money.

Italy: Forlani Government Revives Austerity Plans

Italy's new four-party coalition government under Prime Minister Arnaldo Forlani has issued its first economic decree, which goes into immediate effect but must be approved by Parliament within two months. The action increased the controlled price of gasoline by 75 lire to 775 lire per liter and boosted the tax levied on alcoholic beverages. The decree also provides for the early collection next month of provisional income tax payments, according to a changed payment modus. Furthermore, the government will take steps to raise value-added tax rates.

Altogether, an extra 1,900 billion lire in tax revenues is to be generated by the measures. In addition, Finance Minister Franco Reviglio has announced that, beginning this month, the compulsory system of customer billing for VAT purposes imposed earlier this year on the restaurant trade will be extended to jewelers, household appliance dealers, auto mechanics, and ladies' hairdressers. Next year Reviglio hopes to extend the *ricevuta fiscale* system to the rest of the service sector.

The latest austerity measures are intended to curb consumer demand and the high rate of imports, with their negative effects on prices and the payments balance. By simultaneously acting to boost exports, the government hopes to protect industry from much of the resulting squeeze. Following heavy pressure from both the central bank and the government, the Italian bankers' association has announced a 1% cut, to 19.5%, in the rate of interest charged on export credits. However, the prime rate will remain at 21%, just below the inflation rate. Other long-standing plans to boost industry's competitiveness, including budget absorption of part of the employers' social insurance burden, are to be implemented through additional legislation, which is being rushed through Parliament.

The latest statistics give the Italian economy a bill of poor health, with the annual inflation rate now at 22%, unemployment over 8%, and the payments balance expected to wind up the year with a current-account deficit of 6,000 billion lire. Because of the investment boom that lasted until mid-year and pushed the annual investment rate to 9% over last year's, GNP will probably score a rise of 4% in 1980. However, exports expanded by only 1% in real terms, while imports rose by 5-6%.

Britain: 'Accounting for Foreign Currency Translations'

The U.K.'s Accounting Standards Committee, after wide consultations with accountancy bodies in Britain and Ireland, has now published an exposure draft, "Accounting for Foreign Currency Translations" (ED27). The Committee says that this is an accounting problem whose solution has proved elusive and which mainly lies in determining the method to use in translating the financial statements of foreign subsidiaries for incorporation in the consolidated financial statements of the holding company. When the domestic currency of the holding company is one of the hardest in the world, the conventional "temporal" method (such as that required by Financial Accounting Standard No. 8 in the U.S.) produces an acceptable result. However, in other circumstances this method can produce results that do not make commercial and economic sense, and alternative solutions must be considered.

Earlier ASC exposure drafts permitted the use of either the closing rate method or the temporal method in accounting for foreign currency translation. However, there has been very strong support expressed in the U.K. for a "net investment concept" of applying the closing rate method. In the U.S., the Financial Accounting Standards Board has been reviewing F.A.S. 8 for some time, and the Canadian Institute of Chartered Accountants has suspended its own standard on foreign currency translation. There has been close cooperation between these bodies and the U.K. Committee, as each has been conscious of the need for international harmonization. The FASB has now also published its own exposure draft, which proposes a fundamental change from F.A.S. 8 and is similar in all material respects to the draft of the ASC.

Under the net investment concept, a holding company translates all assets and liabilities of its foreign subsidiaries denominated in foreign currencies and incorporates them into its own consolidated balance sheet at the closing rate of exchange prevailing on the balance sheet date. Exchange differentials measuring cash flow differences (resulting from trading operations such as buying and selling goods or taking out foreign loans for U.K. investments) should be reported as part of the year's operating profit or loss. On the other hand, exchange differences that do not give rise to cash flows (because they result from the re-translation of the holding company's long-term investment in the foreign subsidiary) are not brought into operating profit but are reported as reserve movements.

The net investment concept recognizes that the day-to-day business operations of a foreign subsidiary are not usually dependent on the holding company's reporting currency and that the subsidiary may be wholly or partly financed by local currency borrowings. Also, the company's investment will not be withdrawn in the short term, and it is in a business operation taken as a whole and not in the subsidiary's assets and liabilities.

Austria: Pro-Nuclear Campaign Accelerates

The campaign launched earlier this year to reopen the nuclear power debate in Austria has reached a new stage this month. Between Nov. 3 and 10, Austrians were able to sign two rival "preliminary referendum petitions." One of them called for a lifting of existing legislation outlawing nuclear power in Austria, while the other urged the strengthening of the law and the conversion into a conventional power plant of the new Zwentendorf nuclear reactor, which was mothballed even before it became operational. Should the petitions be supported by at least 200,000 signatories each, which is expected, Parliament would be forced to reopen discussion on the issue. Nuclear power generation has been banned in Austria since a November 1978 plebiscite in which a narrow majority of 50.5% voted against the commissioning of the Zwentendorf reactor.

The call to lift the A-power ban is supported by industrialists, trade unionists, the banking community, and a large part of the press. The anti-nuclear lobby is backed by prominent politicians and by many young people. Both of the two main political parties are split on the issue, but Prime Minister Bruno Kreisky and trade union federation president Anton Benya are outspoken proponents of nuclear power. The pro-nuclear forces are making use of the fact that Austria's energy bill this year has risen to 50 billion schillings and that up to 40% of the energy imports are coming from the Communist bloc. The Zwentendorf A-power plant would, if commissioned, provide 12% of the country's electric power needs.

Kreisky has stipulated a two-thirds majority in Parliament as a prerequisite for a new A-power plebiscite, although the constitution provides that the anti-nuclear law could be overturned by a simple majority. Kreisky's governing Socialist Party has made no policy commitment in support of another referendum, but the opposition parties urged their supporters not to sign either of the preliminary referendum petitions. The conservative Volkspartei is highly sensitive to Kreisky's attempt to exploit the split in the party and force the latter's pro-nuclear parliamentarians to vote with the Socialists should the issue come up for debate.

Sweden: Government Proposes Tax Modifications

In the face of an approaching economic recession, the Swedish government has submitted fiscal legislation calling for the modified continuation of inflation indexing of income tax schedules as well as tax cuts for some groups. The modification would seek to exclude the impact of higher energy prices from indexation, which would save the government about SKr 1 billion. This money would be available for the possible benefit of low-income groups when it comes to the next collective bargaining round in the spring of 1981. A tax cut of 1% is planned for the SKr 76,000-96,000 income bracket, and a SKr 500 rebate is proposed for the SKr 40,000-76,000 bracket. Parliamentary debate on these plans is scheduled for next month.

Last month the government of Prime Minister Thorbjörn Fälldin survived by only one vote, 174-175, a no-confidence motion sponsored by the opposition Social Democrats. The motion, the first one in Sweden's modern parliamentary history, was in protest of administration plans for sweeping budget cuts in '81.

EURO COMPANY SCENE

According to press reports, Touche Ross, one of the Big Eight international accounting firms, is joining its Swiss activities with those of Neutra, that country's fourth-largest accounting practice, whose clients include Swiss Bank Corp. and Swiss Volksbank. Under the arrangement, Neutra will continue to operate as a member of Touche Ross International.

The United States' McGraw-Hill, Inc. has acquired Economic Models Ltd., London, an economic research company previously owned by Computer Sciences Corp., El Segundo, Calif. The London company is to be integrated into a McGraw-Hill subsidiary, Data Resources.

The photo equipment activities of Braun, German subsidiary of Gillette Corp., will be gradually taken over by Robert Bosch GmbH, a leading German electrical engineering group. Braun's annual sales were last given as DM 825 million.

The German Federal Cartel Office has vetoed the proposed merger of Deutsche Texaco AG, the German subsidiary of the U.S. oil concern, with Zerssen & Co., a German oil distributor. Basing its ban on Article 24(2) of the German cartel law, the Cartel Office alleges that the merger would strengthen the market-dominating position of Texaco and the other oil majors on the German market.

A new London bank is to be established by Dow Banking Corp., Dow Chemical's Swiss bank, together with two Scandinavian minority shareholders, Sweden's Sundsvallsbanken and the Bank of Helsinki. Dow is to have an equity of 60%, and the other partners, 20% each.

Common Market Reports

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IN THIS ISSUE

Community: Quotas Mean Red Tape for Steel Makers

The intricate details of the Commission's decision establishing production quotas for the Community's iron and steel producers surprised many executives in the industry. The red tape involved exceeds even what pessimists thought would be necessary (Official Journal, No. L 291, Oct. 31, 1980, page 1). All businesses except those producing less than 3,000 tons of crude steel or finished rolled products within the reference period must send production details via teletype message to Brussels each day, each week, and at the end of each month. They must also prepare a number of documents - for example, about energy and oxygen consumption - and hold them ready for inspection by Commission officials. The EC executive says regular and rapid information about production and deliveries is needed to ensure implementation of the quota system.

Several German steel industry executives believe it would have been far better to return to the voluntary production limits in effect since 1978. Brussels observers are optimistic that the problems posed by the mandatory quota system may convince the Community's steel producers to agree again to a voluntary system. (The mandatory system expires on June 30, 1981.)

The quotas are set on a quarterly basis to enable companies

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to draw up their production programs and the Commission to take account of fluctuations in supply and demand. Since demand for the various categories of rolled products is not identical in each market, the Commission may impose different quotas for the various groups of products as well as for crude steel. The quotas are based on each company's production during the reference period (July 1977 to June 1980).

The production quotas imposed for the final quarter of 1980 are roughly 17-21.5% lower, depending on the type of product, than the output during the reference period. The limits may be exceeded by 3%, but every ton produced over the quota plus 3% is subject to a fine - 75 EUA for each ton of standard steel and 150 EUA for each ton of special steels. The Commission says the quotas are justified because the steel mills in the Common Market used only 70% of their capacity in the second quarter of 1980; in September the utilization rate dropped to 58%, the lowest ever recorded in the Community.

EEC's Stand on New Multifiber Arrangement

The Commission is preparing for next month's Geneva negotiations, which are aimed at drafting a new multifiber arrangement (MFA) to take the place of the five-year pact expiring at the end of 1981. First signed in 1973 and renewed in 1977, the MFA lays down rules governing trade in textiles and clothing to ensure that exports from developing countries to industrialized nations, including those of the EEC, do not result in mass layoffs in the member countries. Commission officials say the negotiations will be difficult because the developing countries are asking for further concessions. Yet the economic recession and high unemployment in several Member States reportedly will make it impossible to widen access for imported textiles.

The first MFA guaranteed to the industrialized nations that the growth in annual textile imports would be held at 6%. However, low-priced imports from Hong Kong, South Korea, Singapore, Brazil, and India to the Common Market threatened the survival of many established companies in Belgium, Britain, France, Italy, and the Netherlands. The imports and new technologies eventually caused the closure of 4,000 businesses and the loss of 700,000 jobs between 1973-78, according to the Commission.

Against this background, the EEC Council of Ministers insisted that the renewed 1977 MFA contain a clause allowing "reasonable departures" from the guaranteed 6% annual growth rate for short periods and in emergencies. The developing countries accepted the clause with the understanding that it would be applied only by the EEC. (Since 1977 textile imports to the EEC have grown by an average 4% annually.) However, other industrialized nations outside the EEC also invoked the clause, causing the developing countries to charge that there has been a breach of trust.

The Commission sees it differently: in a report to the Council it has stated that the present multifiber arrangement has largely achieved its two principal objectives of (1) securing a reduction in the growth rate of imports from countries covered by the arrangement, and (2) causing the bilateral agreements reached with the developing countries to work satisfactorily. The Commission concedes, however, that while the MFA has worked well, it has not been able to stem the growing flood of U.S.-made imports such as polyester and nylon yarns.

Meanwhile, both the Commission and the Member State governments have been urged by national textile manufacturers' associations to influence other industrialized nations, especially the U.S., Canada, South Africa, and Australia, to allow additional imports from the developing countries in order to reduce the pressure on the Common Market. These countries retain high tariff barriers against textile imports and thus have been able to hold down both the volume and growth rate of imports.

In Brief...

The European Court of Justice has rejected appeals against a 1978 Commission decision that found a violation of Treaty Article 85(1) in tobacco manufacturers' agreements concerning the organization of the distribution and sale of tobacco products in Belgium *(Common Market Reports, Par. 10,070)*. The appeals had been brought by seven tobacco manufacturers in Belgium and Luxembourg as well as the Brussels-based Fedetab, the federation of tobacco manufacturers in these two countries. The Commission's decision, now confirmed by the Court, sought to preserve as much competition as possible in a sector where the government sets retail prices and thus greatly reduces the wholesalers' and retailers' freedom to compete + + + An institutional conflict between the Council of Ministers and the European Parliament is in the offing over the latter's statutory right to be consulted on legislative proposals. The EP demands that it be consulted on the architects draft directives, which have undergone major changes in the Council working group since the Commission presented the proposals in 1969. The drafts would allow an architect who is a Member State national to establish himself or render services in another State without moving there permanently. The Council has not formally responded to the request, but, according to Brussels sources, its answer most likely will be negative. Whether the draft directives will be adopted at all depends on the willingness of several Member States to recognize the diplomas of German technical colleges *(Fachhochschulen)*.

Germany: Codetermination Issue Not Yet Resolved

Bonn's government coalition parties have wound up negotiations on their strategy for the new legislative period, but they cannot agree on whether labor should retain statutory codetermination rights in the steel industry when steel production is no longer predominant in a company's range of activities. Efforts to solve the impasse will continue, but a solution is not expected to be found soon. At issue is whether a holding company controlling other companies remains covered by coal and steel codetermination rights when its steel production drops below 50% of its total industrial activities or whether labor's rights are subject to the rules of the less extensive 1976 Codetermination Law *(Doing Business in Europe, Pars. 23,222A, 23,222C, 23,441)*.

The Social Democrats (SPD) had suggested lowering the existing 50% criterion: a holding company would remain subject to 1956 codetermination legislation even if steel production amounted to only 30% of its overall activities over a five-year period. Should this percentage drop even further, the rules of the 1976 law would apply. The Free Democratic (FDP) negotiators went along with this suggestion, but a majority of the 53 FDP members of Parliament opposed the concept and could not be swayed with concessions that would have brought an element of direct democracy to the procedure governing the election of labor representatives on supervisory boards of coal mining and steel making companies. Those representatives are now elected by electors chosen by the employees or delegated by the unions. One of the suggested concessions would let the employees decide whether they want to choose their representatives directly or through electors. Both methods are provided for in the 1976 Codetermination Law, but in practice employees have almost without exception preferred direct elections. The majority of the FDP parliamentarians thought it was not reasonable to apply a law to a business's activities when the originally established criteria no longer exist.

Britain: Tax Exemption for Company Scholarships

In what are regarded as important test cases, the U.K. High Court, in *Wicks v. Firth* (Inspector of Taxes) and *Johnson v. Firth*, has allowed appeals from decisions of the Special Tax Commissioners: it stated that two higher-paid employees of Imperial Chemical Industries are not to be assessed for tax under Schedule E on discretionary scholarships that were awarded to their children by an educational trust set up by the company. The Inland Revenue had regarded the provision of such scholarships as a taxable benefit in the hands of the employee.

ICI established the trust fund in January 1977. The purpose of the fund is to provide discretionary financial awards for further education to benefit children of employees of the company and certain subsidiaries. Section 375 of the Income & Corporation Taxes Act 1970 exempts from tax "incomes arising from a scholarship held by a person receiving full-time instruction at a university, college, school, or other educational establishment." Initially, the Inland Revenue had agreed to such an exemption. However, in 1978, the tax authorities stated that, in the future, they would consider the cost of such scholarships as a benefit in kind, taxable in the case of directors and higher-paid employees under Section 61(1) of the Finance Act 1976. This section states that where such persons, or family or household members, by reason of their employment receive a benefit, the cost of which is not chargeable to tax as their income, "there is to be treated as emoluments of the employment and accordingly chargeable to income tax under Schedule E, an amount equal to whatever is the cash equivalent of the benefit."

Justice Goulding said that in recent years, the U.K. courts, in interpreting statutes, had tended to look more at the purposes of a particular enactment, as disclosed by the words of the enactment itself, rather than adopt too narrow an interpretation. The judge said it was difficult to think that when Parliament passed the 1976 Act, it intended, without giving an express indication, in effect to nullify or impair an unqualified exemption of that kind in the earlier Act, and so no tax liability would be incurred. In view of his decision, Justice Goulding did not give an opinion on the taxpayers' alternative claim that the benefits of the awards were not provided by reason of the parents' employment but rather by reason of the exercise of the trustees' discretion in making an award.

The outcome of these cases is likely to influence many U.K. companies, which may now establish similar plans, with the consequent tax advantages.

A Correction: In the article "Britain: No Need Seen for Tax Loophole Legislation," *Euromarket News* No. 616, Page 6, the reference to "Vevey" should read "Vestey."

France: State Aid Package for Textile Companies

A recent package of government measures establishes the textile and apparel industry as one of seven French industrial sectors of strategic importance singled out for restructuring and modernization efforts. Selected firms will be expected to sign "development contracts" with the government's committee for the development of strategic industries (Codis), opening the way for grants and soft loans. Only companies with above-average rates of growth, profitability, productivity, and export performance will be eligible. The government aims by this and other means to boost total investment in the sector by FF 1 billion annually, equivalent to one-third of the current level. Textile and apparel businesses have suffered from declining competitiveness in recent years, with the result that employment in this sector fell to 600,000 last year and exports dropped to FF 24 billion.

In addition to funds from Codis, healthy firms will be eligible for "participatory loans" from the government's interministerial committee for investment development and employment aid. These loans have the purpose of strengthening companies' capital bases and reserves. A special new guarantee fund will also be set up to ease the overall supply of commercial credit by banks and other financial institutions to the industry as well as to encourage participation in state-organized credits for the sector. The fund is expected to generate as much as FF 500 million per year in additional medium-term and long-term loans.

Italy: Finance Ministry Probe of Oil Tax Scandal

Finance Minister Francesco Reviglio has announced the formation of a special commission to inquire into the activities of the Guardia di Finanza, Italy's financial police. The Guardia has been heavily compromised by growing revelations of the scale on which a major oil industry tax fraud was perpetrated in the mid-1970s.

According to Reviglio, as much as 450 billion lire in tax revenue may have been lost as a result of the fraud, which involved mainly oil dealers and politicians in northern Italy. It is now generally acknowledged that the fraud must have required extensive collaboration by sections of the Guardia. The latter's commander between 1974 and '78, Raffaele Giudice, has been placed under arrest. Arrest warrants have also been issued for 100 other persons, and magistrates in Rome as well as 22 other cities have become involved in pursuing the case. Furthermore, the president of the Senate finance committee, Remo Segnana, is under pressure to resign following his unexplained failure to circulate three reports on the case provided to the Senate by the Finance Minister earlier this year.

The fraud was based on avoidance of payment of tax on high-duty oil products, including gasoline and diesel oil, through the use of false ex-refinery documentation claiming to be attached to cheaper products of a lower tax rating. It is a common assumption in Italy that a part of the proceeds of the fraud was diverted to one or more of the country's political parties.

Austria: Interest Rates Reach Post-War High

Austria's long spell of easy credit has been broken by the central bank's tight money policy, which has forced interest rates up to their highest level since World War II. The prime rate has risen to 12% from 8.75% at the start of this year, while consumer credit, when available at all, has climbed as high as 13.5%-16%. Commercial banks have been placed under heavy restrictions on the issuance of consumer loans, preventing them from increasing their outstanding volume of credit beyond its present level. Simultaneously, the banks have been given a free hand in setting interest rates for deposits and are now offering up to 10% for larger, long-term savings deposits.

Stephan Koren, president of the Austrian National Bank, believes that rates may rise still further and warns that Austria will have to generate a net capital import this year of 40 billion schillings in order to cover its mounting foreign payments deficit. (Imports take up two-thirds of every schilling spent by Austrian consumers.) The tight money policy is the result of this situation as well as the discrepancy between the savings rate (which fell in the first eight months of 1980 to half the level of the equivalent 1979 period) and credit demand. During the 12-month period ending last August, credit volume expanded by 105 billion schillings, but deposits by only 68 billion.

Greece: Trade Unions Demand Wage Indexation

In wage negotiations that may set a pattern for the future, the Greek General Confederation of Labor (GSEE), representing most of the country's private-sector unions, has demanded agreement on an automatic inflation-indexed wage adjustment system. A 24-hour general warning strike was called on Nov. 10 and involved 1.5 million GSEE members. The annual inflation rate has been around 25% in Greece for the past two years. The unions are also campaigning for a five-day, 40-hour week, more generous housing loans, improved medical care, and a minimum pension of 80% of pay at retirement. Pursuing similar demands, the public-sector trade unions last month staged a two-day warning strike of 200,000 civil servants. The government is attempting to promote a compromise wage agreement which would include the principle of wage indexing, but exclude oil products from the index. This would result in a 15% wage rise.

EURO COMPANY SCENE

The State of Florida's Dept. of Commerce has opened a European office for industrial and real estate investment in Stuttgart, Germany. Its director is David Y. Pittman.

International Harvester Co. (IHC), the U.S. agricultural equipment manufacturer, has purchased from Braud Co. a combine harvester plant in Angers, France, which will be IHC's sixth European production facility. The price of the deal was not disclosed, but IHC said it planned to invest $40 million in the plant by 1983.

According to British press reports, the United States' leading aluminum producer, Alcoa, is to make a decision this month on whether to shut down or severely reduce production at its European aluminum sheet plant at Swansea, Wales. Closure would involve the loss of 1,300 jobs. About half the workforce would be affected by a cutback. Technical, management and market problems are said to have resulted in financial losses of £16 million so far this year.

Kaiser Aluminum & Chemical, another major U.S. aluminum maker, has announced plans to invest a further DM 150 million to raise the aluminum plate capacity of its largest German plant at Koblenz. Kaiser aims to become a principal supplier to the European aircraft industry, specifically the Airbus consortium.

An investment of more than $80 million in a Swedish plant for the production of low-density polyethylene will be shared by Union Carbide, the U.S. chemical group, and Sweden's KemaNobel. The plant, which is to produce 150,000 metric tons annually as of 1983, will be the first in Europe to use Union Carbide's new Unipol low-pressure gas phase process.

American Greetings Corp. has reached agreement in principle to acquire Celebration Arts Group, a U.K. greeting cards subsidiary of Philip Morris, Inc. It was also reported that American Greetings may have come to terms with Ziff Corp. over the purchase of the latter's greeting card subsidiaries in Britain and Monaco.

In a related development, Hallmark Cards, Inc., of Kansas City, reportedly was about to take over Britain's Valentines, also a producer of greeting cards and related products.

Florasynth, a privately held New York company, reportedly has reached preliminary agreement to buy for FF 70 million a French producer of perfume fragrances and food aromas, Lautier Aromatics, from Rhône-Poulenc, the chemical concern. Established in 1795 and headquartered in Grasse, Lautier reported sales of FF 140 million last year and operates subsidiaries in the U.S., Britain, Brazil, and Japan.

Common Market Reports
EUROMARKET NEWS

Issue No. 619 *December 1, 1980*

IN THIS ISSUE

Community: Proposal for Creation of EC Trademark

The Commission has formally opened its drive for the creation of a Community trademark with a proposal for a draft directive to align national trademark rules and a draft regulation outlining the details for the establishment of a Community trademark *(Common Market Reports, Pars. 5832, 5873)*. At this point, Brussels is not seeking full alignment of national trademark provisions but only enough alignment to stimulate the free movement of products and rendering of services within the Common Market and to foster competition. Thus, alignment is sought of the rules governing trademark registration and use, licensing, and arbitration.

Differences among national rules pertaining to the geographical scope of trademark application within a Member State's territory would continue to exist, and so would the differing rules that provide the trademark owner or his licensee with legal remedies against importers of products that bear identical or similar trademarks. In the past these differing rules have led to a number of legal actions, some of which eventually landed in the European Court of Justice (among others, *Terrapin/ Terranova*, Case No. 119/75, June 22, 1976, *Common Market Reports, Par. 8362;* and *Centrafarm*, Case No. 3/78, Oct. 10, 1978, *Common Market Reports, Par. 8475)*.

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The draft regulation would set forth rules on the substantive and procedural law necessary for registration and maintenance of a Community trademark. There would be details on what kind of signs would qualify for a Community trademark. There would also be rules establishing the rights emanating from such a trademark, including those against infringement, and provisions governing forfeiture and nullity. Cumulative protection through national and Community trademarks would be banned.

Registration for a Community trademark would be simple and relatively inexpensive. A manufacturer could apply for registration either at the European Trademark Office (yet to be established) or at the pertinent national patent office, which would forward the application. The European Trademark Office would examine the application and research for any existing identical or similar trademarks; if no opposition is raised, it would publish the trademark's registration. The ETO would have semijudicial as well as administrative functions, but its appellate and revocation boards would be independent enough to assure due process.

Commission officials stress the advantages of a Community trademark. With one application a manufacturer could obtain a trademark that is valid in all Member States, and he could reasonably expect to sell more in other Member States if the product carried a Community trademark. Consumers would gain from the fact that products carrying this mark would have the implied characteristics and quality. They would also be able to choose from a wider range of products from various parts of the Common Market. Furthermore, the Community trademark would put an end to the confusion about products bearing identical or similar trademarks.

More Funds for States with Payments Problems

The Commission has proposed enlarging the funds available to Member States that run into balance of payments difficulties due to the price increases of imported oil. Submitted to the Council of Ministers earlier this month, the measure would raise the present $3-billion ceiling on funds to $10 billion. The conditions attached to a loan granted to a recipient country would not be stiffened. The Commission has always faced considerable opposition from most Member State governments when a proposal involved amounts of any magnitude. In this instance, however, it would be the Council that could decide not only on the conditions to be attached to every loan but also the mode of payment. The funds could be paid out in lump sums or installments, and payment of successive installments could be subject to compliance with economic policy conditions to be met by the borrowing State.

The Nine's finance ministers have supported the idea of the Community borrowing several billion dollars on the international capital markets and lending the money to Member States facing payments difficulties. Observers nevertheless expect problems when it comes to hammering out the details. Even though there is agreement on the necessity of extending the present system (which was created in 1975 to recycle petrodollars), several governments maintain that the projected $10 billion is far too much; if all States ran into balance of payments difficulties, however, $10 billion would not be enough.

Commission officials see no hurdles ahead to prevent adoption of the proposal. The next step is for the EEC Monetary Committee and the European Parliament to give their opinions on the measure. Then it would be up to the Commission and the Member State governments to make necessary changes and to resolve possible differences.

In Brief...

The Bureau Européen des Unions des Consommateurs has asked the Commission to apply to the Member States' airlines the Treaty of Rome's competition rules laid down in Articles 85 and 86. In a formal complaint, the Brussels-based organization, representing the national consumers' associations, maintains that the air fares cartel practiced by the airlines constitutes a flagrant breach of the Treaty's provisions on price competition and abuse of a dominant position. The BEUC has threatened to bring the matter before the European Court of Justice. The complaint was lodged to put some pressure on the EC executive as the enforcement agency for competition rules, according to Brussels sources. As a policy-proposing institution, the Commission has been reluctant to propose deregulating air fares, although this reluctance is largely due to rising opposition in the Member State capitals + + + Reversing a previous decision, the Commission has reactivated its ban on subsidies to firms exporting butter to third countries. The repeal of the ban was to take effect on Jan. 1, 1981, and would have meant that each kilogram of butter sold outside the EEC would have been subsidized with over $2 in order to compete with world market prices. Aside from saving taxpayers' money, the Commission's move may have prevented a big sale of butter to the Soviet Union: the Kremlin had reportedly signed a contract with a French firm calling for the shipment of 100,000 tons of butter stored in several Member States.

Germany: Attacks on Plan to Repeal Motor Vehicle Tax

The Schmidt administration's apparent determination to repeal the motor vehicle tax law and then recoup the loss of revenue through a substantial increase of the gasoline excise tax is running into resistance from the German unions, the political

Opposition, and most state governments. Since the vehicle tax is a state tax and its revenue flows into the state treasuries (DM 7.5 billion in 1979), most state governments are not inclined to back repeal of the law without adequate compensation from the federal government. It is an open question how the states would be compensated; at any rate, approval by the upper house of Parliament is required. Although the Opposition lost last month's national elections, this had no bearing on its majority in the Bundesrat. Thus, the government could succeed with the plan only if it persuades at least two of the five states run by the opposition Christian Democrats to approve the plan.

Several years ago, repeal of the vehicle tax was considered for administrative reasons because the 4,000 civil servants occupied with the collection of the tax were swamped with work due to the rapid rise in car registrations. Although the cutting of red tape is still a factor in Bonn's plan, emphasis now lies on saving fuel.

Government officials estimate that the gasoline excise tax would have to be raised by at least DM 0.14 per liter to compensate for the repeal of the motor vehicle tax. This increase plus the DM 0.07 boost scheduled for enactment next April 1 would push the total excise tax to DM 0.65 per liter. Adding to that the 13% value-added tax on every sale, motorists could expect to pay roughly 20% more for gas than they do now. Hurt most would be those who have no choice but to commute by car. The government says they would be granted some relief, but it is not yet known to what extent. Present law entitles commuters who drive to and from work to deduct DM 0.36 per kilometer from taxable income.

Critics of the government's plan contend that abolishment of the vehicle tax and a corresponding increase of the gasoline excise tax would be unfair. Imposed since 1922 and based on engine displacement, the vehicle tax was conceived to have motorists share part of the costs incurred in the construction and maintenance of roads and highways. A motorist who drives relatively seldom would not be contributing his share if the vehicle tax were abolished, the critics say.

Netherlands: Government Again to Intervene on Wages

Following the breakdown of a third round of negotiations between employers and unions over a central wage pact, the Dutch government once more feels compelled to put limits on wage expansion next year in order to ward off inflationary dangers. This year The Hague had imposed a formal wage freeze, allowing only a uniform increase for all employees as of July 1. Next year it wants to hold pay rises to about 5%, compared with an anticipated inflation rate of 8%. This is to be achieved mainly by reducing the automatic wage adjustments and vacation bonuses. The five main items of the government's overall proposals are as follows:

(1) The automatic inflation adjustment of wages effected twice a year (in January and July) would not be calculated at the projected 2.7% in January but only at 0.7%.

(2) The vacation bonus would be lowered from 8% to 7.5% of annual income, and any income in excess of 80,000 guilders a year would not be considered for this purpose.

(3) Direct taxes would be lowered somewhat, so that, in the words of Social Affairs Minister Willem Albeda, "no one would actually lose anything." Tax-free allowances, for instance, would be raised by 4%.

(4) Employers and labor unions would have to discuss the creation of new jobs. (In the aborted discussions, the unions had demanded that any wage concessions on their part would have to be rewarded by firm employer guarantees on maintaining existing jobs and creating new ones.)

(5) A number of excise levies would be raised. According to the proposals, the price of cigarettes would go up by 0.25 guilders per pack, that of gasoline by 0.01 guilders per liter, and that of hard liquors by 0.60 guilders per liter.

The aim of The Hague's wage policy would be to reduce individual purchasing power next year by between 0.75% for low-income groups to 3.5% for those in the high-income brackets. By doing this, the wage cost share of industrial production costs in Holland, which is among the highest in the world, would be reduced, and the burden on the deficit-ridden state budget would be eased.

Belgium: VAT Increase; Business Failures on Rise

The Belgian government has decided to boost value-added tax by 5% to 30% on a range of specified "luxury" goods, starting from Dec. 1. Jewelry, clocks, furs, cosmetics, and weapons will be affected by the move, which reflects official efforts to deal with a rapidly growing budget deficit. The standard VAT rate of 16% on most goods and services remains unchanged.

In other news, 366 bankruptcies were reported in Belgium in October, up 20% from the same month last year, affecting mainly the construction, hotel and textile sectors. The total number of bankruptcies this year may well reach 3,000. The Economics Ministry says that the bottom of the present economic slump has yet to be reached. The National Bank recently identified the economy's four main problem areas as (1) high unemployment, (2) the inadequacy of the domestic capital market, (3) the rising payments deficits, and (4) renewed inflationary threats.

Italy: La Malfa Revives Medium-Term Economic Planning

Italy's minister for budget and planning, Giorgio La Malfa, has revived the practice of medium-term economic planning, which had lapsed two years ago. A three-year plan presented to the inter-ministerial planning committee (CIPE) proposes to reduce inflation from 20% to 10% by the end of 1983, without abandoning growth prospects. The plan envisages as its key instruments a moderate wage policy backed up by a social contract with the trade unions, a system of tight control over state finances, and a new industrial investment program. The sectors mainly affected include housing, health, traffic, and energy. The plan also aims to reduce the country's dependency on food imports and to give added impetus to the industrialization of the south. La Malfa hopes to put the draft before the cabinet by the end of December and pass it through Parliament in the first half of 1981.

Austria: No Chance for Pro-Nuclear Factions?

In the preliminary referendum balloting on Nov. 3-10 for and against nuclear power, the Austrian pro-nuclear lobby succeeded in gaining about 420,000 signatures, sufficient to compel Parliament to discuss the petition's call for the commissioning of the Zwentendorf nuclear reactor. The opponents of nuclear energy failed to achieve the 200,000-vote minimum, so that their proposal for Zwentendorf to be converted to a conventional gas-fueled power plant will not be discussed.

The comparatively low turnout of less than 20% of eligible voters has, however, led many commentators to doubt that popular support exists for a change in Austria's anti-nuclear policies. Chancellor Bruno Kreisky, a strong A-power supporter, commented that he would not expect more voters at a preliminary balloting. Conservative leaders, on the other hand, presented the low turnout as a justification for their party's resistance to a change of the existing law barring A-power for generating electricity.

Britain: Conduct Codes on Picketing, Closed Shops

The U.K. codes of conduct on picketing and the closed shop, which appeared in draft form in August, have now been approved by Parliament, after various amendments. The codes are intended to complement the Employment Act, which was passed earlier this year *(Doing Business in Europe, Par. 40,062)*, and to provide practical guidance to both sides of industry in two particularly sensitive areas of industrial relations.

The codes seek to explain the law in layman's terms and will be admissible, in evidence, in courts and tribunals. However, it will be for the courts to decide the weight to be attached to them, and it has been emphasized that the codes will not, by themselves, make a person liable to civil or criminal proceedings nor, by ignoring or contravening them, will a person automatically be committing an offense or acting unlawfully.

The Secretary of State for Employment, James Prior, stressed that the codes are not an attempt to legislate by the "back door" method but a means of dealing with difficult issues that "have occasioned intense public concern in recent years, in the absence of effective and comprehensive voluntary guidance." Prior said he believed that the codes would make an important contribution to the improvement of industrial relations in the U.K.

The principal elements of the code relating to picketing include advice on how pickets are organized, the movement of essential supplies, and the provision of essential services. It is suggested that there should be a maximum of six pickets at any entrance to a plant or office. The duties of the police in controlling pickets are clearly laid down, with an emphasis on their wide discretion. A trade union may discipline any member who crosses an official picket line, but not if the line is unofficial and not at the member's place of work.

The main components of the codes on the closed shop include detailed guidance on the use of periodic reviews of new and existing closed shops in industry as well as advice to employers and unions on the procedures to be adopted when establishing a closed shop. In addition, guidelines are provided on the treatment of union members and other affected employees. Reviews of a closed-shop situation are to take place when there is evidence that employees' support for a closed shop has declined. For the introduction of a closed shop, there must be a minimum level of support of 80% of those entitled to vote.

Prior indicated that the government intended to repeal the provision in the 1976 Employment Act for the institution of a press charter. He said that the relevant section of the code on the closed shop would provide far greater protection for journalists, and a firmer assurance of press freedom, than any press charter could achieve.

The codes of practice have met with opposition from the Labour Party and trade unions. Len Murray, general secretary of the Trades Union Congress, said that Prior's "tinkering" with the wording of the codes could not disguise that their inspiration was still hostility to trade unions. He stressed that the codes were "totally useless" to those who were trying to improve industrial relations, and any impact they achieved would be "malign." Eric Varley, Labour's employment spokesman, recalled that Lord Justice Scarman has said that judges should not be put in the driving seat in determining the delicate problems arising out of trade disputes. Varley said that this was sound advice which had been totally ignored by the government.

Switzerland: High OECD Marks for Prudent Policies

The Organization for Economic Cooperation and Development has accorded praise to Switzerland's prudent economic policies and the conduct of Swiss industry in meeting the challenges posed by the rapid oil price increases. This has made it possible, according to the OECD survey on the Swiss economy published this month, to compensate for real-term income losses and to keep inflationary pressures lower than in other countries. The Paris-based OECD cautions that these policies must be continued if Switzerland is to cope with the delayed effects of imported inflation and the slowdown in the world markets.

For next year, the Organization forecasts considerably smaller growth rates for Switzerland in the areas of domestic and foreign demand, investments, private consumption, and gross national product. The growth rate of the latter is predicted to fall to 1.25%, from 2% registered in both 1979 and '80. Growth in domestic demand is also to slow to 1.25%, from 2.7% this year, and that of foreign demand to 3-4%, after this year's 5-6%. The rate of gross fixed capital formation should go down to approximately 0.5% in volume terms next year, according to the OECD.

Consumer price inflation, which has been running at about 4.5% this year and thus continues to be the lowest in any OECD member country, is forecast to drop further, to 3.5%. This would permit a slight acceleration in real-term wage increases, despite an expected slowdown in the rise of the total wages bill. As a result, private consumption, up 1.5% this year, could expand next year by about 1% in volume terms, assuming that the savings ratio remains fairly stable. Unemployment, virtually zero at this time, may show a tendency to rise in 1981 as a result of the slackening growth rate.

The balance of trade is expected by the OECD to show a significant deficit of $6 billion in 1980, offset to a large degree by a rising surplus on "invisibles," such as tourism. As a result, the current-account deficit this year will probably not exceed $1 billion, which compares to a surplus of $1.4 billion in 1979. A recovery is believed likely next year.

The survey repeats once more the OECD's long-standing criticism that Switzerland is not doing enough in the area of development assistance. The share of GNP represented by official aid programs has remained at 0.2% for several years. "It might be argued that the authorities' goal of increasing this share to 0.3% by 1982 is still too modest," in view of Switzerland's high per-capita income level, its strong financial position, and the 0.7% target that the other OECD countries have set for themselves.

Common Market Reports

EUROMARKET NEWS

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IN THIS ISSUE

Community: Products Liability Draft in Second Reading

The Council's working group discussing the products liability draft directive has started its second reading of the proposal, and the national and Community experts are now trying to find solutions to problem areas that emerged during the first reading. Adoption of the measure would make manufacturers liable for damage caused by defective products, regardless of whether the defect was due to negligence on the manufacturer's part *(Common Market Reports, Par. 10,167)*.

There are disagreements about several concepts set forth in the measure, but Council attorneys say the most controversial issue concerns the proposed maximum amount of 25 million EUA that a manufacturer would have to pay for personal injuries. Although Article 7 would leave it up to the Council to lower or do away with this amount altogether, several Member States are against stipulating a maximum amount in the first place, while the others have not yet decided.

There is a general consensus so far that manufacturers would fare better with a fixed limit on their liability because this would help them assess the risks involved when putting a product on the market and insuring it. However, a number of arguments against such a limit were presented during the discus-

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sions. Several national experts pointed to the practical problems involved in cases when many claims are made, because it would be difficult then to obtain adequate compensation. Another argument concerned procedural difficulties when claims are brought before courts in several Member States. Problems could also arise in deciding how to apportion available funds among claimants from Member States and third countries. Council attorneys believe that the final version of the measure will provide a limit on manufacturers' liability, but it could deviate from that proposed by the Commission.

The suggested statute of limitation for bringing suit has also presented problems. Article 8 would require an injured person to bring action against the manufacturer no later than three years after the day he or she had, or ought to have had, all the information needed to bring suit. A majority of the Member States go along with the three-year limitation, and some of them would even favor four or five years. For the minority, the proposed three years is an absolute maximum. (The Italians believe that even three years is too long.) Council attorneys stress that the differences are not as grave as they may appear, and so they expect a compromise here, too.

The draft directive would establish a ten-year statute of limitations for products liability. An action could not be brought against a manufacturer later than ten years after the date the product was put on the market. Although most States are prepared to accept this limit, Germany could accept it only if an exception was provided for pharmaceuticals; the German statute of limitations on liability for injuries due to defective drugs is 30 years *(Doing Business in Europe, Par. 23,533B)*.

The chairman of the Council's working group has invited the Commission to come forward with compromise formulas to help find solutions. Council attorneys report that the Commission has indicated its willingness to submit changes where good conscience allows it to deviate from its proposal, which was already amended once to reflect recommendations made by the European Parliament and the Economic and Social Committee.

Adoption of Directives to Combat Animal Diseases

The Council of Ministers has adopted two directives to bring about harmonization of the Member States' veterinary legislation on classic swine fever and enzootic bovine leucosis. Backed up by several decisions dealing primarily with financing to eradicate the diseases, both measures are important for intra-Community trade. The directive designed to eradicate swine fever from the Member State territories is also significant for trade with third countries, notably the United States. Swine fever, also called hog cholera, is a highly infectious viral disease which poses no direct danger to human health but can, if unchecked, quickly decimate herds of swine.

Only three Member States - Britain, Ireland, and Denmark - are free of swine fever, and this was accomplished largely by adhering to a rigid slaughter policy when infections occurred. Pigs were slaughtered not only at the infected farms but also in the immediate surrounding areas, and the farmers were compensated for their losses. All three States ban the import of pigs and pork from countries (including the other six Member States) where swine fever is still endemic. As one result of their efforts, they are on the so-called clean list maintained by the U.S. government and thus may export pork, bacon, and sausages to the United States. The other six EC States have been trying for years to get on the clean list; their policy is less rigid in that it prescribes strict isolation and vaccination when outbreaks occur. The six believe that their method of compulsory vaccination is just as effective and considerably less costly than the slaughter of entire herds. This argument was challenged not only by the three Member States adhering to the slaughter principle but also by experts who maintain that slaughtering is cheaper in the long run than vaccination, which must be repeated.

Although the ban on imports of live pigs and pork from other Member States violates the principle of free trade within the EEC *(Common Market Reports, Pars. 321, 322)*, the adopted directive allows Britain, Ireland, and Denmark to retain the ban until mid-1986 under Treaty Article 36 *(Common Market Reports, Pars. 351, 352)*. During the coming years the other States will gradually switch over to the slaughtering policy. Some 35 million EUA have been set aside to compensate farmers for the loss from having pigs slaughtered. Commission officials expect that the territory of the six Member States will be completely free of swine fever before mid-1986.

Important is the guarantee provided in the directive that, during the next five years, the six States will be able to continue among themselves trade in vaccinated live pigs and pork products while the eradication program is carried out. Without this guarantee, Belgium was prepared to block the proposals because it feared that its substantial trade with France would have been cut off by rigid application of the plan.

With the adoption of the second directive, the Council incorporated protective measures against enzootic bovine leucosis into Directive No. 64/432/EEC *(Common Market Reports, Par. 958.05)*. Those States that by Jan. 1, 1981, still lack a mandatory national or regional prophylactic program against bovine leucosis are required to introduce minimum measures to eradicate this disease.

In Brief...

In the Permanent Representatives' debate about ways of easing the work of the European Court of Justice, the French government has suggested letting the Advocate-General join the judges in court chambers and take part in the deliberations after he has delivered his conclusions in a particular case. The Advocate-General, a concept taken from French court practice, is a sort of one-man lower court; he is independent, and the Court of Justice is not bound by his conclusions. He would lose this lower-court role if he were allowed to join in the judges' deliberations, say the representatives from the other Member States, who cannot warm up to the concept even if it is part of judicial life in France + + + The Commission has decided to withdraw its 1976 proposal calling for the establishment of a European Export Bank. The main function of such a bank would have been to help businesses located in several Member States with export financing. Germany and France, which have been against the idea of an EEB from the very beginning, maintained there was no need for a new Community institution. Britain and Ireland also had reservations; only Denmark, the Benelux countries, and Italy backed the proposal.

Netherlands: Sinking Chances for Profit Sharing Law

It is highly doubtful that the latest version of the Dutch government's draft legislation on employee profit sharing will be passed into law within the current legislative session, according to observers. In October the Social Affairs Ministry had still pushed for a parliamentary debate on the issue before the end of the year. However, the party factions in Parliament had insisted on a longer period of consultation, and the bill was not placed on the Second Chamber's agenda for the remainder of the year. National elections will be coming up in May 1981, and there are those who say that the time until then will not be enough to gain final passage for the controversial law, which was to have taken effect on Jan. 1, 1981.

A major aspect clouding the fate of the proposal for employee "capital growth sharing" (VAD) is that the modifications devised by the government have not enhanced the bill's popularity. The only staunch supporters are the governing Christian Democrats (CDA) and the CNV labor union. The chief opponents are made up of the Liberal coalition partners in the cabinet, the employers, and, to a lesser degree, the opposition Socialists (PvdA) and the FNV, the country's leading trade union federation. The Liberals reject outright any kind of profits distribution, while the employers base their opposition mainly on the poor state of the economy.

As previously reported, VAD *(Vermogensaanswasdeling)* would affect some 2,000 Dutch companies with pre-tax earnings of at least 125,000 guilders annually. A maximal 3% of such "excess profits" would have to be contributed to a collective fund and to individual funds set up for the workforce of each company.

Germany: Raw Materials Stockpiles Plan Shelved

Lack of money has caused the German government to shelve the plan to establish stockpiles of strategic raw materials to help industry weather possible crises on world markets. Bonn's estimated financial commitment would have been around DM 300 million over an eight-year period, but the coalition parties thought this was too much in the present tight fiscal situation. Industry is disappointed by the surprise turnabout.

Efforts to secure industry's supplies for longer periods date back to the mid-1970s, when the political situation on the African subcontinent, where most of the supplier countries are located, took an unsettling turn. Since then, certain raw material supplies maintained by individual enterprises have been considered insufficient. There was considerable argument within the administration as to whether the government itself should build up national stockpiles of strategic raw materials or whether this should be left to industry. By the middle of this year, a draft agreement had been worked out by government officials and representatives of several industry associations calling for the establishment of 12-month stockpiles of asbestos, chromium, cobalt, manganate, and vanadium. A private consortium was to be entrusted with buying and stockpiling. The government had promised to contribute to the cost of credit financing. In return, the industry associations' representatives had agreed on behalf of their members to pay for the storage; however, businesses had failed to obtain a tax concession for storage costs, which they had counted on.

Economics Ministry officials reportedly are not unhappy with the decision to drop the plan: during the years of debate and negotiations, doubts had arisen about the selection of raw materials to be stockpiled. The officials maintain that it is impossible to estimate dependence on supplies of particular raw materials over longer periods. Another of their arguments is based on the free-enterprise philosophy, which has many strong backers in the ministry: they believe it is far better to let the businesses themselves decide which and how much of each raw material should be kept in stock in order to continue production over a longer period without any new supplies from abroad.

Belgium: National Labor Conference; Steel Industry

The analysis of the various policy positions taken by the participants of a national labor conference last month was expected to play a major part in determining the economic course of the new Belgian coalition government, which has been in office less than two months. The conference brought together 80 representatives of trade unions, business and industry associations, farmers, and the government for one week's discussions, after which the Martens administration hoped to make final decisions on future economic strategy. The central topic for the conference's working groups was how to revive the sluggish economy while simultaneously fighting inflation and reducing the country's budget and payments deficits. These aims are laid down in a wide-ranging program of economic measures recently agreed on by the two government coalition partners, Christian Democrats and Socialists. Stressing wage moderation, the reduction of the budget deficit, and special aids for the construction industry and other businesses, the government's program is designed to reduce industry's costs and encourage expansion of exports.

In the meantime, new Finance Ministry figures put the expected revenue shortfall this year at BF 30 billion and next year at BF 50 billion. As a result, the budget deficit should reach BF 280 billion in the current year and as much as BF 320 billion in 1981.

In other news, Economics Minister Willy Claes announced in reply to a parliamentary question that the cost to the state budget of the government's rationalization program for the steel industry is now expected to reach BF 32.8 billion, spread over 20 years. This figure represents an increase beyond the BF 21-billion investment decided on by the cabinet last September, when the government agreed to put up half of the capital needed for the restructuring plan in the form of state loan guarantees and interest rate subsidies. The September announcement followed the apparent stalling of a 1978 decision to set in motion a BF 44-billion program for which the government and the major steel industry shareholders would each raise half the capital needed. The two principal shareholders, Société Générale de Belgique and Compagnie Bruxelles Lambert, had been unwilling to proceed with the program without government guarantees for the loans they planned to raise on the capital markets.

France: Campaign to Devalue Franc; Budget Approved

Leading commentators in France's financial press are supporting the demand of the country's business community for a downward adjustment in the parity of the franc in the European Monetary System. Senior government officials are also thought to be sympathetic to the needs of the export industry, which has suffered a considerable loss of price competitiveness in the last two years or so. Since February 1978 the value of the franc has actually increased marginally against the German D-mark, from FF 2.33 to 2.30, but the French inflation rate of 36% in the same period was 20% higher than West Germany's. Exporters have ceased to report any real-term sales growth, and a FF 60-billion foreign trade deficit is expected for the current year, mainly due to the price advantage of imported goods on the home market. At the same time, France's industrial production was 5% lower in September than at the same time last year, and inflation remains at 12.8% for the second half of 1980.

Pressure for a devaluation is also being applied by Gaullist deputies in the National Assembly, where Prime Minister Raymond Barre reigns as a staunch defender of the franc's present parity. Barre is reported to have made acerbic comments on the competence in economic affairs of leading members of the industrialists' associations, the Patronat, as well as of the Gaullists. Nevertheless, he was forced to admit before the Economic and Social Council last month that his government had not succeeded in preventing an acceleration of inflation. Barre criticized businessmen for thinking that they could simply pass on wage rises in higher prices. Threatening a tighter monetary policy, the Premier warned that exporters would have to learn that the government would not adjust the parity of the franc to inflationary developments. In the last 12 months, prices have risen by some 16%, partly as a result of extensive - and expensive - price liberalization.

In other news, the National Assembly has approved the government's 1981 budget draft. The Gaullists, who have otherwise been vociferously critical of Barre's economic policy, appear to be saving their political ammunition for the presidential election campaign in the spring, when the state of the economy should be one of their principal themes. Last year they had succeeded in blocking the passage of the budget for several months. With the 1981 budget, the government apparently intends to keep a tighter rein on public spending: the deficit is to be reduced to FF 29.4 billion, compared with an expected FF 32.1 billion this year. Direct taxation is also being held steady for the first time since Valéry Giscard d'Estaing became president.

Britain: Government Outlines Legislative Program

In the Queen's Speech opening the new session of Parliament, the U.K. government said that the need to slow inflation and create conditions for a sustainable growth of output and employment remained its prime concern. To that end, it would "take all steps necessary to maintain firm monetary and fiscal policies." Plans for public expenditure would take account of the need to restrict the claims of the public sector on the nation's resources. Special encouragement would continue to be given to new businesses and to measures helping small firms expand and prosper. Further proposals would seek to reduce the scope of nationalized and state industries and to increase competition.

Among special measures to be introduced would be a new Companies Bill relating to accounting procedures, which is in response to the EEC's fourth directive and the general intention to harmonize the rules for establishing and regulating companies within the Community. Under the Act, probably to be proposed early in the new year, smaller companies would not need to provide nearly as much information as they do now, and they would be liable to less rigorous audits. In addition, the Registry of Business Names would disappear, and it is likely that companies will be afforded the opportunity of buying their own shares, which is not permitted at present. More effective sanctions are also anticipated against the clandestine purchase of a company's shares when the buyer's true identity is not disclosed and a significant shareholding is built up.

Legislation is proposed to make employers liable to provide the first eight weeks of sickness pay for employees, at a minimum weekly rate of £30, in terms of 1979 prices. In return, there would be a probable 0.5% reduction in the rate of national insurance contributions paid by employers. However, the total cost of such sickness payments would be reimbursed when the employee had less than two months' service. Small firms employing up to ten people would receive a 50% rebate. (The Confederation of British Industry has criticized the proposal as being costly to administer, and the government may make some further concessions.)

EURO COMPANY SCENE

Bankers Trust Co., New York, is the first U.S. bank to have opened a representative office in Belgrade. Bank spokesmen said that the office expects to assist its clients in setting up joint ventures and long-term cooperation agreements with Yugoslavian partners.

Creditanstalt-Bankverein, the leading Austrian bank, has completed the sale of the two Viennese plants of its Hübner-Vamag subsidiary to the Gray Tool Division of the United States' Combustion Engineering.

Kelvinator Ltd., the British producer of refrigeration equipment, has been acquired from the United States' White Holding by Italy's Candy SpA, a leading European manufacturer of household appliances. With the purchase of the U.K. plant, located at Bromborough near Liverpool, Candy has also acquired the rights to the Kelvinator brand for central Europe.

Tandy Radio Shack, the U.S. electronics company, has named Miniper SA (Gonset Holding SA) as its exclusive distributor in Switzerland.

Elizabeth Arden GmbH, the German subsidiary of the U.S. cosmetics group, will close its Constance branch plant at the end of the year. About 100 workers will be affected by the closure.